Legislative Assembly of Alberta

The 30th Legislature
Second Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Monday, July 13, 2020
9 a.m.

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Alberta Heritage Savings Trust Fund

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* substitution for Tracy Allard
** substitution for Matt Jones

Also in Attendance

Gray, Christina, Edmonton-Mill Woods (NDP)
Phillips, Shannon, Lethbridge-West (NDP)

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Standing Committee on the Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance
Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management
Athana Mentzelopoulos, Deputy Minister

Alberta Investment Management Corporation
Dale MacMaster, Chief Investment Officer
Mark Prefontaine, Chief Client and Stakeholder Relations Officer
Kevin Uebelein, Chief Executive Officer

9 a.m. **Monday, July 13, 2020**

[Mr. Orr in the chair]

The Chair: Good morning, ladies and gentlemen. It is 9 o'clock, so I'd like to call the meeting to order of the Standing Committee on the Alberta Heritage Savings Trust Fund and welcome everybody in attendance. Glad you could make it, and good to have you here.

My name is Ron Orr, MLA for Lacombe-Ponoka, and I'm chair of this committee.

Before we begin, I just want to note that in accordance with recommendations from Dr. Deena Hinshaw – and I see it's all been sort of prearranged – we maintain appropriate distancing wherever possible. Glad to see you're all nicely spaced out. Congratulations.

Now I'd like to ask members and those joining the committee if you would introduce yourselves for the record. I'll start to my right, and then we'll go to Skype after that. Please begin.

Mr. Getson: Sure. Shane Getson, MLA for Lac Ste. Anne-Parkland and deputy chair.

Ms Glasgo: Michaela Glasgo, MLA for Brooks-Medicine Hat.

Mr. Williams: Dan Williams, MLA for Peace River.

Mr. Singh: Peter Singh, MLA for Calgary-East.

Ms Armstrong-Homeniuk: Jackie Armstrong-Homeniuk, MLA for Fort Saskatchewan-Vegreville.

Mr. Ireland: Brad Ireland from the Auditor General's office.

Mr. Prefontaine: Mark Prefontaine, Alberta Investment Management Corporation.

Mr. MacMaster: Dale MacMaster, AIMCo.

Mr. Uebelein: Kevin Uebelein, AIMCo.

Ms Mentzelopoulos: Athana Mentzelopoulos, Treasury Board and Finance.

Mr. Epp: Lowell Epp, Treasury Board and Finance.

Member Loyola: Rod Loyola, MLA for Edmonton-Ellerslie.

Mr. Eggen: Good morning. My name is David Eggen. I am the MLA for Edmonton-North West.

Ms Gray: Good morning. Christina Gray, MLA for Edmonton-Mill Woods.

Mr. Nielsen: Good morning, everyone. Chris Nielsen, MLA for Edmonton-Decore.

Mr. Koenig: Good morning. I'm Trafton Koenig from the Parliamentary Counsel office.

Mr. Kulicki: Good morning. Michael Kulicki, committee clerk.

The Chair: Wonderful. Thank you.

For the record – actually, Skype. Do we have anybody on Skype? Please chime in now.

Ms Phillips: Sure. It's Shannon Phillips here, MLA for Lethbridge-West.

The Chair: Welcome, Shannon. Glad to have you via this new method.

For the record – sorry; one other thing first. I have to note the official substitutions: Dan Williams for Matt Jones and Jackie Armstrong-Homeniuk for Tracy Allard.

A few housekeeping items before we turn to business at hand. Please note that microphones are managed by *Hansard*; you don't need to turn them on or off. Make sure your cellphones are, please, set to silent. Committee proceedings are, of course, live streamed on the Internet and broadcast on Alberta Assembly TV, and the audio and video and transcripts can all be accessed via the Legislative Assembly website.

Now the piece that I was jumping to prematurely: participation in the meetings via video conference. Hon. members, section 6 of the Legislative Assembly Act authorizes the members of committees of the Legislative Assembly to participate by teleconference or other methods of communication. If unanimous consent is granted – and you may recall that we did this a while back for teleconferencing. We're essentially doing it now for video conferencing. As you will recall, we did that, but given the circumstances we're facing with COVID-19, the use of the additional means of video conferencing is something that will give committee members another opportunity to proceed in this work. In order to proceed with the video conferencing option, the committee needs to approve a motion unanimously to that effect. Is there a member who might be willing to move such a motion? I think we have a draft right there on the screen for you to have a look at. Maybe I should read it. Moved that

> for the duration of the Second Session of the 30th Legislature the Standing Committee on the Alberta Heritage Savings Trust Fund permit members of the Legislative Assembly to participate in committee meetings via video conference subject to the proviso that the committee may require members' in-person attendance at a particular meeting upon passing of a motion to that effect.

There's the motion. Do you want to discuss it, or does someone want to move it? It's up to you.

Mr. Nielsen: So moved.

The Chair: So moved? Okay. Thank you, Member.

We have the motion before us. Any discussion, conversation?

Seeing none, I'm going to ask: all in favour, please signify so. Any opposed? None.

> That motion is carried.

We can truly officially welcome you, Member Phillips, to join in the debate here.

I should remind everybody that while all and any MLAs may attend standing committees, only those who are official members actually have a vote. You're welcome to participate in the debate and discussion and questions. Just refrain from voting if you're not one of the official members.

Let's move on, then, to the approval of the agenda. Are there any changes or additions to the draft agenda that anyone would like to propose? If not, then I'd like to ask for someone who might be prepared to make a motion. That one is pretty straightforward, so it's not going to be on the screen. Member Singh has made that motion. Any discussion on that? Seeing none, all in favour, please signify. Any opposed? Hearing none, that motion is carried. Thank you very much.

Let's move on to the approval of the minutes from February 6. You've all had them in advance. I trust you've actually read them. Any errors, omissions that you note? If not, would a member be prepared to make a motion that we approve the agenda from the February 6, 2020, meeting of the standing committee? I'm sorry. Slip of the tongue. Approve the minutes, not the agenda. I'm sorry.

Yes. Member Getson. Thank you. That motion has been made. Any discussion, comments? Oh, I'd better read it into the record. Okay. Moved by Member Getson that the minutes of the February 26, 2020, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be approved as distributed. All in favour, please signify. Any opposed? None. Thank you. That motion is carried.

Okay. Let's move on to the meatier part of the business for today, the Alberta heritage savings trust fund third-quarter report for 2019-2020. Hon. members, turning to the agenda item of the third quarter, I would first note that we're pleased to have officials from AIMCo and Treasury Board and Finance and also the Auditor General's office here to answer any questions that you might have. Thanks to all of you for being here today.

The fund's third-quarter report was released on February 28, 2020, and the report was posted to the committee's internal website. As committee members will be aware, the Alberta Heritage Savings Trust Fund Act mandates that one of the functions of this committee is to receive and review quarterly reports on the operation and results of the heritage fund. With the committee also considering the fund's annual report today – I don't think it's in the notes here. I should say that that meeting, in discussion with the clerk and legal counsel and others, was deferred until now rather than February or March simply because of the outbreak of COVID and nobody being sure at the time how to manage it, how to handle it, what would be appropriate. So it's been deferred till today. With the committee also considering the fund's annual report today, it might be that most of the committee's questions will have to do with the annual report; however, I really first want to ask that we give an opportunity for any comments or questions that may arise relevant to the third quarter before we move on to that.

So I will ask Treasury Board and Finance, AIMCo whether they want to deliver any remarks specific to the third-quarter report and then whether any members have any questions. Treasury Board and Finance, AIMCo, would you like to make comments with regard to the third-quarter report specifically? I'm seeing noes all the way around.

I will offer the opportunity for members who may want to ask questions. I think it's perfectly appropriate. It is a separate report. Are there any members who would like to ask questions or comment on the third-quarter report? I do see Member Eggen. Please proceed.

Mr. Eggen: Well, thank you, Chair. Thanks for everyone being here this morning. It's been a while since we've had this committee. We do question and follow-up, I guess, yeah?

The Chair: Yeah.

Mr. Eggen: Okay. Great.

The third-quarter report of the Alberta heritage trust fund was looking quite good as far as I can read the report. I see a plus 6 growth rate, which was encouraging. I know that it's in rather stark contrast to the annual report, which is something completely different, quite different. I guess my question is: does the third-quarter report reflect the use or the utilization of the VOLTS strategy for investing during that third quarter?

9:10

Mr. MacMaster: Yes. The third-quarter results include all products and strategies employed by AIMCo, so, yes, it does.

Mr. Eggen: Okay. That's all I have.

The Chair: Okay. Maybe I should just say, for the benefit of all, that I will try and go back and forth. I'll give you a question, and if you have a supplemental, please take one supplemental. Then we'll try and move on. I think that's been fairly common in our committee here, so I will try and follow that.

Anyone else have a question related to the third quarter? Member Glasgo.

Ms Glasgo: Thank you, Mr. Chair. The third-quarter report indicates that before the pandemic rocked the global economy, the fund was on track for some very strong results. I believe that is because of the strategies taken by AIMCo. We see that on page 1 you highlight that overall the fund returned 6.3 per cent net of fees, outperforming the benchmark by 9 basis points, which is quite impressive, yet your net income was $1.6 billion. Can somebody from either Treasury Board and Finance, AIMCo explain or elaborate on why the fund outperformed the benchmark in the third quarter?

Mr. MacMaster: Sure. The fund to the end of December 2019 outperformed marginally. For the three quarters ending in December 2019, fixed income added value. Most of the products added value. Equities, public equities, were the laggard in 2019.

Ms Glasgo: Supplemental, Mr. Chair? Okay.

This was obviously a very strong quarter for the heritage savings trust fund. I was just wondering if you still have the same confidence in your strategies that led to the results at that time.

Mr. MacMaster: Sure. Obviously, we had a difficult quarter, final quarter, fiscal quarter, for the heritage fund and for all our clients. But I would highlight – this may come up again in the questions – the 10-year performance, you know, for the heritage fund at 8.4 per cent return annualized for 10 years, which includes 38 basis points of outperformance by AIMCo, adding value to the benchmarks. Despite a dreadful quarter we have confidence in our products and strategies and the ability for AIMCo to add value on a consistent basis over the long term. So yes.

Ms Glasgo: Thank you, and thank you, Mr. Chair.

The Chair: Anyone else have a question on the third quarter? Yes, please, Member Gray.

Ms Gray: Thank you very much, and thank you to everyone who has come to present to the committee. I appreciate your time. We've been learning all about the difference between internal and external benchmarks and some of the wide divides between them, and I just want to make sure that I've understood correctly. On page 1 it speaks to: "Value added above the benchmark return is on pace to be below the expected return of 100 basis points above the policy benchmark per annum for this fiscal year." Am I correctly understanding that although the very positive 6.3 net of fees was outperforming the policy benchmark, it was below other measures? Is that correct?

Mr. Uebelein: Our performance was above the benchmark. The benchmark is the theoretical level at which one could perform if there was a passive approach. The heritage fund has a long-term goal of surpassing that benchmark by 100 basis points. That's quite a stretch target, and that's one that we try to achieve over long periods of time. One could say that we beat the benchmark, but we didn't beat the stretch goal above the benchmark.

Ms Gray: Thank you.

Mr. Uebelein: You're welcome.

The Chair: Anyone else? Member Getson.

Mr. Getson: Thanks again for everyone coming down for this. Curiosity is going to kill the cat and everything else along those lines. Where I'm kind of leaning is: was there anything in Q3 that would have given an indicator as to what we've experienced in Q4? Again, your strategy was trending the proper way. There were certain measures in place. We seemed to be, you know, trending according. Were there any indicators that would have led you to anticipate what we were going to experience in the next quarter?

Mr. MacMaster: No, there weren't. I think the onset of the pandemic caught all investors, you know, by surprise. There's no indication at the end of the third quarter of what was to come. In fact, you know, the outlook for the economy was quite positive. Inflation was low. Growth was low but consistent around 2 per cent, 2 and a half per cent. We had record unemployment rates in Canada and the U.S. Things were looking up. We had some resolutions to trade issues which were hanging over the market, so issues between China and the U.S., which were appearing to get resolved. At the end of 2019, which was a pretty good year for investing, I think the consensus view was that we would see a continuation of that into 2020. Of course, we couldn't have been more wrong. The extent of the volatility that we saw in the first quarter is testimony to the shock and surprise that hit the markets with that.

Mr. Getson: Just as a follow-up to that, were there any of your peers who are in other investment companies out there that did see the trend? Was there anybody out there that kind of saw it, or were they all taken by surprise on this?

Mr. MacMaster: No one, to my knowledge.

Mr. Uebelein: I think that if anybody claims that they did, it's a case of revisionist history.

The Chair: Anyone else? Question? Comment?

Seeing none, I will – actually, on Skype, Shannon, questions, comments on the third quarter at all?

Ms Phillips: Not at this time. Thank you, Chair.

The Chair: Okay. You're welcome. Thank you.

We need to then consider a motion according to our rules to receive this third-quarter report, a draft motion. Is it going to be up there? Yes. Moved that

> the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2019-20 third-quarter report on the Alberta heritage savings trust fund.

Comments? Questions?

Are you prepared to move that motion? Is that what I see?

Ms Glasgo: Yes.

The Chair: Okay. Glasgo has moved that. Comments or questions?

Seeing none, all in favour, please signify. Any opposed?

That motion is carried.

Thank you.

The Alberta heritage savings trust fund annual report we will consider now, turning to that report. Before we hear from our guests, I'd just like to begin by briefly reviewing the committee's mandate with respect to the fund's annual report, which is different than the quarterlies and especially since this year the committee encountered an unexpected delay in being able to review a final version of the report. As provided for in section 6(4)(b) of the Alberta Heritage Savings Trust Fund Act, one of the functions of this committee is to approve the fund's annual report. Furthermore, section 16 of the act requires this committee to furnish copies of the report to all Members of the Legislative Assembly once approved, following which the Clerk must make the report public.

On Tuesday, June 23, the committee clerk received a draft of the annual report from Treasury Board and Finance, which was made available to the committee on the internal website. However, this June 23 draft was not the final version of the report, as noted on page 3 of the June 23 draft, and I quote:

> A message from the President of Treasury Board and . . . Finance is currently being prepared by the Minister's office and will be included in the final report. The report will be finalized upon sign off of the financial statements on July 13, 2020.

As members will be aware, this meeting, this meeting today, was initially scheduled to take place on Friday, June 26; however, since the committee could not be in a position to consider a motion on approving the annual report until after the final version was received, the June 26 meeting had to be rescheduled.

Finally, I would note that the final report was sent to the committee clerk on Wednesday, July 8, after which I called this meeting to be held as soon as possible thereafter.

At this time we will receive an overview of the annual report from Treasury Board and Finance, followed then by remarks from AIMCo. Then I will open the floor to questions from committee members.

Treasury Board and Finance, please.

9:20

Ms Mentzelopoulos: Thank you, Chair. If it's okay, I'm going to split my time with Lowell. I wanted to thank the members for the opportunity to be here today. Before I hand it over to Lowell, I just wanted to briefly address the delay in finalizing the annual report and having it approved by the committee. I want to be clear that the timeline reflects decisions by me and my team. The COVID-19 pandemic made valuing assets and measuring performance very complicated. The market crash that was precipitated by the pandemic will, I hope, be the worst any of us see in our careers. It was, of course, global, not unique to Alberta. Assets that are typically valued on an annual basis were assessed more closely as necessary, and in some cases the value of the investment was written down.

Just as an illustration of how quickly things have changed over the last number of months, as of last Thursday the value of the fund was $17.5 billion, which, of course, reflects a number of things that Lowell will discuss. The additional timelines that we ultimately were able to utilize did ensure that the most accurate, relevant, and complete information was published in the report. But, ultimately, we did miss the deadline, and I apologize for that.

Lowell.

Mr. Epp: Thank you, Athana. As for the report itself, I'm not going to go into a lot of depth, but I would like to briefly highlight some information. The fund had a tough year. If it had a calendar year, it would have had a good year, as we just talked about the quarterly report, but it doesn't have a calendar year. It has a March 31 fiscal year-end. The first three quarters of the year were quite positive, but the world fell apart in the fourth quarter. Equity markets hit record highs just before the world fell apart on, I think, February 19, and within a week a global pandemic had been announced or declared by the WHO.

By March 23, which is the low in the market, equity indexes had lost roughly one-third of their value, so anybody with equity stocks would have lost significant amounts in, well, the month between February 20 and March 23, basically. Because of the time of year when the markets fell, the impact on the heritage fund can be confusing. The market value return for the year was negative 5.1 per cent, as shown on the first page. However, also on the first page, the heritage fund earned income of $1.2 billion. How do you earn income of $1.2 billion and lose 5.1 per cent? Well, we're using two different measurement bases. Market return numbers, performance numbers, if you will, the 5.1 per cent negative: that is calculated using market value. It assumes that all stocks and bonds, anything owned by the fund, is mark to market immediately, experiences that loss in real time.

Net income is different. Net income for the fund, according to accounting rules, is recorded when transactions are made, so when the interest is received or dividends are received or transactions are made. You bought a stock for $4 and you sold it for $7, a gain of $3. There has to be a transaction for income to be recognized. That's the reason for the difference.

Because the fall in equity and other massive values occurred near the end of the year, they caused this demarcation, if you will. One fell dramatically, and since there had been very little, if any, time to react to that to carry on investments, the net income did not fall dramatically. Now, it was $1.6 billion. After the third quarter it fell to $1.2 billion. There were some writeoffs done at the end of the year, not actual transactions but some assets written down at the end of the year to recognize they had permanently lost value or at least permanently lost value in the eyes of the accounting rules.

You can see more details of this on page 23 in the statement of remeasurement gains and losses. Also, more details on that are in note 5 on page 34. What you will see is that during the year the fund had remeasurement losses, unrealized losses if you will, of $2.2 billion. Note that it paid just over $1 billion to the general revenue fund, so while its market value went from 18 and a half billion to $16.3 billion or whatever it was, a lot of that is due to the fact that a billion dollars went to the general revenue fund as per the heritage fund act.

Now, only – and I emphasize "only" – if market prices were to stay the same as they were on March 31 for a long period of time, until assets were sold, would you actually realize that $2.2 billion loss.

Thankfully, while markets haven't fully recovered, much of what was lost in the equity markets during February and March has been recovered. As Athana mentioned, as of this past Thursday the market value was climbing toward $18 billion, so much of that lost income has been recovered, thankfully. Because of the timing of the year-end, that goes into next year's report, all those wonderful gains.

One of the things that's mentioned at every meeting in my remarks: the heritage fund is not invested to maximize short-term earnings. It's invested to maximize long-term earnings, as is the goal stated in the heritage fund act. As it is the mandate of the heritage fund to provide value over the long term, it is important to look at returns over the long term. In our business plan Treasury Board and Finance has a goal to measure returns over five years. Over the past five years the heritage fund has earned a return of 5.2 per cent. In order to surpass the real return benchmark, the benchmark that we want to earn, 4.5 per cent plus inflation every year, we would have had to earn 6.1 per cent over the last five years. So the fund has underperformed that long-term investment target by about .9 per cent. Now, if you measure over 10 years, we've got a gain – and it's shown in the report – against that long-term benchmark. Our business plan says five; over 10 we've beaten that goal. I wouldn't call it a benchmark; it's a goal to add 4 and a half per cent per year plus inflation.

The investment manager is also expected to generate returns from active management. The policy benchmark representation of what the fund could have earned or would have earned if it was managed passively – in other words, not taking active positions – would have had a return of 5 per cent over the past five years. Its actual return was 5.2 per cent, so actual value of active management was .2 per cent. As Kevin mentioned earlier, we have a target of a hundred basis points annually over the five-year period, so performance is under that stretch goal, as Kevin called it.

For the last year the heritage fund had a negative 5.1 per cent return. The benchmark was .8 per cent during '19-20. So active management contributed an underperformance of 5.9 per cent relative to the benchmark.

Lastly, I know you're all aware that the equities portfolio suffered an abnormal loss because of a volatility strategy. I would mention that as of March 31 this strategy caused the fund to lose $411 million and reduced fund returns by 2.2 per cent. All positions of this volatility strategy have been exited. They were done so in June. The final impact to the heritage fund was a loss of $389 million. This translates to a 2.1 per cent loss for the heritage fund as a whole.

That concludes my remarks. Thank you.

9:30

The Chair: Thank you very much.

Now, if I can, I'd like to move to AIMCo for some remarks, and then we'll go to questions. Thank you.

Mr. Uebelein.

Mr. Uebelein: Good morning. Thank you, Chairman Orr and other members of the committee, for having us here. I have a few prepared remarks before I turn it over to Dale to talk about the investment results in more detail. The losses incurred by AIMCo from one of our investment strategies, a volatility trading strategy which we have called VOLTS, has been well reported by AIMCo ourselves and by the press, but I would like to discuss it briefly with you this morning.

I want to reiterate something that does bear repeating. The scale of the losses experienced from VOLTS earlier this year were beyond what we or our clients would want or expect, and I take full accountability for this outcome. To be clear, it is the scale of those losses and not that there were losses at all that was noteworthy and bears scrutiny. The AIMCo board and I have analyzed the situation extensively, reported on it, and we are making the necessary changes.

However, the fact that losses were incurred in the volatility strategy, which has been so highly publicized, or in other asset classes is, frankly, to be expected, especially with the onset of the whipsaw recession that began earlier this year. In the month of March alone, which Lowell has already reminded you is the final month of the fiscal year for the heritage fund, there was really nowhere to hide with regard to investments. Luckily, many markets have recovered since that time, and Dale will describe this to you in just a few minutes. I know that all of you already know this, but experiencing losses as an investor is inevitable. We are literally in the business of taking investment risk and reaping rewards over the longer term by taking these risks, and it is the fundamental difference between being an investment manager and being a bank.

Over our history AIMCo has been very successful at taking well-understood and measured risk and earning appropriate risk-adjusted, value-added investment returns for our clients as a result. Our long-term track record is a testament to this success. We've delivered excess returns over our benchmark to the heritage fund seven years out of the 11 years of our existence, and over the past five years AIMCo has been a top-quartile value-add performer. This past fiscal year was clearly an exception to our excellent track record, and of course it's one that we don't want to see repeated.

The losses from VOLTS were triggered by the most sudden and volatile markets experienced in a professional lifetime, which occurred over a few trading days in March. Once-in-a-career events like this are referred to as extreme-tail events. This is because when you draw a graph of all of the possible investment outcomes, events like this are at the far extreme of unlikelihood, where the shape of this looks like a long tail. We experienced what is called an extreme-tail-event loss.

As we've looked extensively at what occurred, there are important lessons that we've drawn, and a detailed report on those lessons has been released to our clients, to our stakeholders, and has been made available to the public through the AIMCo website, so I will not go into detail right now, but of course I'll be happy to answer any questions. Suffice it to say that while losses from strategies like this were suffered by many of our peers across Canada and around the world, I was not pleased with our particular performance, and I've implemented the changes needed to ensure that something like this will not happen again.

Bearing in mind that the purpose of this meeting is to discuss the investments supporting the heritage savings trust fund, there is one other AIMCo-related topic that I'd like to briefly touch on this morning. That is the work being done towards the integration of AIMCo with the assets and investment capabilities of Alberta teachers' retirement fund, Workers' Compensation Board, and AHS. The work and dialogue between the management teams of AIMCo, ATRF, AHS, and WCB have continued apace even as the distractions and higher hurdles of a COVID-19 world have been presented to us. Integrations like these are very complex and time consuming, and we have full-spectrum project teams in place working on all aspects with technical and strategic.

There's been a lot written and shared that attempts to compare AIMCo's performance record with those of other Alberta organizations often as a means of questioning the logic of this integration effort. Until now I have not discussed this in public, but I'd like to make a few comments today.

Comparing performance on a truly comparable like-for-like basis is an extremely difficult exercise since there are inevitably several significant unequal variables between organizations. If any one of these differences is not fairly addressed and neutralized, the comparison results are meaningless. These variables include having different reporting year-ends, as we've already commented on; having different asset allocations; having different, sometimes very different risk tolerances; having a different approach towards foreign currency hedging; using different methodologies for valuing difficult-to-value illiquid assets; using different methodologies for determining which fees and expenses are fully disclosed and netted and even sometimes differences on whether returns are reported before or after expenses.

I'm sharing all of this to highlight how, because of all these differences, making such comparisons is almost always flawed, and attempting to do so is fraught with natural conflicts and lack of full information. AIMCo does not engage in attempting to adjust other firms' performances. Many of these variables are just not disclosed or obtainable.

Within our industry there is one independent organization that has for decades performed this kind of comparable analysis. That company is called CEM Benchmarking. It's a Canadian firm headquartered here in Canada with a global client list. Because of its strict confidentiality and complete independence, AIMCo and our peers are willing to disclose all of these relevant variables to CEM, and that allows CEM to fully make like-for-like adjustments and then share with their clients how they're doing against their peer groups. CEM evaluates companies along two variables: value-added investment performance and expense efficiency. In every report we've received from CEM since I joined AIMCo, CEM has placed AIMCo in the top quadrant with regard to both of these variables, value-added performance and expense efficiency. We would be happy to provide this committee with a copy of the most recent CEM benchmarking report to AIMCo.

Finally, I want to stress that making what are inevitably flawed attempts at comparing the historic performance of our Alberta entities, frankly, completely misses the most important point of this integration exercise. The point is that together we will be able to build an investment platform that exceeds anything we had individually been able to build, and all to benefit Alberta. Each of the organizations has good investment teams and good investment performance records, but together we will benefit from our combined talent for more shared capabilities, greater diversification, and all of that with greater efficiency, which inevitably leads to higher net investment performance over the long term. Our objective from the start has been clear: to build an even stronger investment platform going forward. I remain convinced that this will happen.

Thank you, Chairman Orr.

The Chair: Thank you very much.

Now we'll move on.

Mr. MacMaster: Great. Well, it's been a very turbulent few months for all of us with what has been unfolding around the world. We've witnessed the first-ever global recession by government decree, a necessary temporary shutdown of the economy aimed at preventing an even larger humanitarian crisis. Unlike the global financial crisis of 2008, which this is often compared to – that one had its greatest impact on financial institutions – the pandemic, on the other hand, has touched all industries and sectors of the economy and has had a direct impact on every person on the planet. This marks the deepest recession in history, with more than a third of the global population placed in lockdown at one point. Unfortunately, there's no precedent and thus no reliable playbook for managing through this type of event.

To recap the final fiscal quarter, in the early part of that quarter markets had initially shrugged off concerns about the virus until it quickly spread outside China. Then markets fell apart, and history was made with unprecedented levels of sustained volatility. The S&P 500, for instance, fell from its all-time high on February 19 into bear market territory, which is defined as a 20 per cent drop, in only 16 trading days. That's the quickest bear market tumble on record. Volatility as well broke all records as the S&P 500 average daily volatility through the month of March was nearly 5 per cent. Just to provide some context there, technically, when we see a 1 per cent move in markets, we say that is volatile. So this was completely off the charts.

9:40

The markets hit a bottom on March 23, some 38 per cent below the peak a month earlier. Commodity markets were also impacted, and oil collapsed when the Saudi-Russia price war erupted when the Saudis announced that they would no longer support prices.

Obviously, AIMCo and the heritage fund performance has been affected materially, both in terms of absolute and relative performance. The return for the quarter was minus 10.7 and minus 5.1 for the fiscal year ended March 31. AIMCo's active management retracted 5.9 per cent for the year, with most of that coming in the last quarter when the impact of the pandemic was felt most severely on all the investment products.

Underperformance emerged in most portfolio areas but especially within public equities, which has been noted. The VOLTS strategy had an outside negative contribution to performance. Losses in total for AIMCo were $2.1 billion prior to the strategy being closed in June, and as noted here, the heritage fund loss was $400 million, or 2.2 per cent, of the performance. The balance of that was in the illiquid assets, which Kevin again alluded to, and we took the opportunity at the end of March to recognize what was happening in listed markets and made adjustments to our illiquid assets.

The illiquid private assets were faced with varying degrees of stress depending on the industry and sector. Travel, hospitality, and commodities have been particularly punished. Within real estate, retail shopping malls, hotels, and Alberta exposures were most vulnerable and were earmarked for valuation adjustments at quarter end. The closure of London City Airport, one of our holdings, led to similar negative valuation changes along with Howard Energy within the infrastructure portfolio. The closure of cinemas led to a significant markdown of Vue Entertainment, our largest private-equity holding. Ultimately, this was a very difficult quarter for our clients' portfolios.

On the positive side markets have come storming back with the tremendous support mechanisms that governments and central banks have established to support the global economy. Despite the nightmare of March 2020 the S&P 500 is only down 2 per cent year to date, and bonds have had strong returns.

If one looks again at the long-term performance of the heritage fund over 10 years: annualized returns of 8.4 per cent and a value-add of 38 basis points per year, which I think serves to show the long-term success of the investment program and AIMCo's value proposition despite the dreadful last quarter and a rare misstep on our part.

As we look forward, making predictions about the economic and market outlook seems like a futile exercise with so much uncertainty. The deluge of articles about COVID, that I'm sure you've all been reading, merely serves to highlight that no one really knows how things will play out in the future. In fact, dire predictions about the level of infections and mortality of a few weeks ago seem to be well off the mark as COVID curves in most regions of the world have indeed flattened, and the conversation today is more about the pace of reopening of economies. The path forward likely depends on whether an effective vaccine or treatment becomes available within a reasonable time scale, and that remains an open question.

One thing is certain. Economic activity around the world faces its biggest contraction in modern times. Declines in second-quarter GDP will be the worst that we have ever seen in a wide range of countries, especially those that have instituted lockdowns and the closure of nonessential businesses.

While there are clearly a lot of unknowns, we can take some comfort in the things that we do know. Many comparisons have been made to the global financial crisis; however, the world is a different place than 2008. For one thing, the banking sector globally is in much better shape. Regulators forced banks to exit riskier business activities, hold fewer risk assets, and hold more capital, particularly in North America.

Economic fundamentals prior to going into the pandemic were sound. Despite the record length of the expansion that likely ended in March, there were no major domestic economic imbalances in most advanced economies. Consumers were less exuberant than in previous cycles, firms had not overinvested in capacity, and housing markets, with a few exceptions, did not overheat. Inflation was generally low and stable. On top of this, we had the lowest levels of unemployment in 40 years.

The absence, then, of economic legacy issues should be supportive of a recovery once the virus is under control.

In terms of the government response this has been markedly different from the global financial crisis as well. The speed and magnitude of the monetary and fiscal response were again unprecedented. Caution has been thrown to the wind as policy-makers have been pulling out all the stops to keep the recession from turning into a lasting depression with mass bankruptcies and unemployment. Governments have taken a page from the global financial crisis and gone even further with numerous programs to fill the gaps. While this will not prevent a deep recession, it will minimize the downside risks and support the eventual rebound.

Central banks were quick to cut rates aggressively, and they have stepped up as lenders of last resort not only for banks but increasingly for other financial intermediaries and even for nonfinancial corporations through a wide range of lending and asset-purchase programs.

Many governments have also reacted swiftly by addressing both liquidity and solvency concerns. They also extended tax payment deadlines and provided income support for individuals, subsidies for corporations in addition to providing backstops for central bank lending programs.

Over the past few weeks the equity markets have bounced back close to 40 per cent from the bottom in March. Risk sentiment has recovered in part because COVID infection curves have flattened and, more importantly, because investors believe that policy-makers have effectively underwritten global markets. Investors also seem to be betting on a vaccine coming sooner rather than later, yet the global outlook is still pretty grim, with considerable uncertainty about the timing and strength of the economic recovery. Only time will tell if the V-shaped recovery of equity markets will be confirmed by solid global economic recovery.

In any case, I want you to be aware that AIMCo is ready and well positioned to take advantage of opportunities and potential dislocations brought on by market gyrations. We have already made some investments and commitments that we believe will reap outsized returns for our clients in the coming months and years. Some of the best returns of the last 10 years have come out of the ashes of the global financial crisis in 2008, and we are reminded that this, too, shall pass.

Thank you.

The Chair: Thank you, Mr. MacMaster.

Now we'll move on and entertain questions from the committee members. I already have Member Gray on the list.

I think you're the first one, Member. Please proceed.

Ms Gray: Thank you very much, and thank you for each of the three presentations. My remarks will be directly to the presentations we just heard, and I'd really like to test my understanding for myself but also for everybody who's watching this debate – not debate; discussion – because there's been a lot of interest in what's been happening with AIMCo in light of the move of assets of ATRF and others.

Already in this committee, value-add benchmarks, value-add targets have been referred to as stretch goals multiple times. As I understand it, benchmarks would be for passive investing. The value-add is the value that AIMCo is providing through active management. As we've heard from, first, Lowell's presentation, over the past five years there has been that value-add of .2 per cent for the active management, so under that – and he used the term "stretch goal," but it's not a stretch goal. The reason you choose active management: it's the money spent for active management to make it worth it. I would just like to inquire given, as Lowell presented, that .2 per cent for the active management over the last five years: how much did that active management cost Albertans to get .2 per cent? What did the heritage savings trust fund pay for that .2 per cent?

Mr. Uebelein: In one sense the answer is simple: it paid nothing because that .2 per cent is net of absolutely all expenses.

Ms Gray: What were the expenses?

Mr. Uebelein: Well, for example, this year – I don't have the numbers in front of me – I think the expenses were under $90 million charged to the heritage trust fund. By the way, those expenses over the last four years have been declining. They've declined 11 per cent over the last three years, so on average 3 and a half per cent reduction in costs per annum over the last three years.

9:50

Ms Gray: Thank you.

Mr. Chair, just as a follow-up, again I'm concerned about the language around stretch goals. I note in your presentation, Mr. Uebelein, that, talking about the independent organization CEM Benchmarking, you said that they measured two things, value-add performance and expense efficiency. Given that CEM Benchmarking measures value-add performance, the idea that they're measuring a stretch goal doesn't make sense. This isn't a stretch goal; this is an important marker for investment managers to live up to. If you could please just clarify because I think Albertans are confused about whether meeting the benchmark is the target or meeting the value-add performance, which CEM Benchmarking is tracking, which seems to be very important to your clients that I've spoken to. If you can help us just untangle this language.

Mr. Uebelein: I'll try, and I hope that my associates will pitch in as well because it isn't simple. Frankly, all of our clients have slightly different nomenclature. Sometimes they will call something an objective which might be a very difficult or stretch objective. But in all cases we're adding value. We call it value-add when we are beating the benchmark. Even one basis point of beating the benchmark is not easy. We all know that. Those of you who try to invest on your own or have read about individual retail investing know that it's very difficult to beat the benchmark. And then all of our clients have different long-term objectives, which would be typically set at a level above, so some level of beating the benchmark. If we beat the benchmark, that is value-add investing. That's the definition.

Mr. Prefontaine: Yeah. I'll supplement Kevin's comments with a couple of things: one is to reinforce an earlier comment that he made, that any time we're reporting value-add, it's always net of fees – there are no additional costs over and above any value-add that's reported from AIMCo – and also remind the committee that, including the heritage fund, AIMCo has 31 clients. Each one of them will express their expectations of AIMCo differently, whether that be a value-add expectation, and for our clients that'll range from 50 basis points over a single-year period to a four-year period to a five-year period to 100 basis points, as with the heritage fund over a five-year period.

Then there are other objectives clients will establish as well – and the heritage fund has one of those that's against an absolute return type target – and then, as important to expressing their expectations for performance over and above benchmarks, comes the risk tolerances that they'll express. Quite often our clients will have a risk tolerance expressed by way of an active measure and sometimes by way of an absolute measure, how much they're willing to lose over a certain period of time in a certain probability range, but those vary widely amongst our clients.

All that to say that we have a number of clients that express their objectives and their expectations of AIMCo differently and also provide AIMCo with a certain amount of risk that they're willing to assume. Some will call it stretch, some will simply call it objectives, but it all amounts to the same thing.

Ms Gray: Thank you.

The Chair: Thank you.

Member Glasgo, please.

Ms Glasgo: Thank you, Mr. Chair. I just wanted to start by saying thank you to all of you for coming to present today. I think that Albertans are proud of the work that we have and the investment that we have in the Alberta heritage savings trust fund, but that also creates a lot of ownership from Albertans within the heritage savings trust fund and a lot of increased emotions as well, as I think you mentioned, Mr. Uebelein, about the – you didn't use this word, but I will – erroneous claims that are being made and erroneous comparisons that are being made between different funds and different methods of management. I just wanted to say thank you for clarifying that because I think that's very important not only for the committee but for the public.

Second to that, I would just like to ask – you know, we made a lot of references to comparisons as far as what the legislation mandates and what the mandate of the heritage savings trust fund is, and we talked about this being a long-term, not a short-term investment strategy that AIMCo was undertaking for the heritage savings trust fund. On that basis, I would say that AIMCo has been overwhelmingly successful with their 10-year average. Like you said, an apples-to-apples comparison would be to use what the legislation mandates.

The legislation also does mandate – and I think this is the elephant in the room today – that a report be tabled by June 30. I know, Ms Mentzelopoulos – sorry if I butchered your name; I'm very used to having my first name butchered, so I feel really bad when I do it to other people – that you kind of touched on this a little bit. I'm just wondering if Mr. Epp or AIMCo or yourself or even the Auditor General representative Mr. Ireland could explain to the committee and to Albertans what happened specifically with the delayed release of the report. If we could just get a little bit more information for Albertans on that.

Thank you.

Ms Mentzelopoulos: Yeah. I think I'm probably best suited to answer it because ultimately I'm the one that was accountable for the decisions that were made along the way, so I want to be super clear about that. In hindsight probably we should have asked to include a provision for an extension in the annual report for the heritage fund, in the same way we did for the GOA annual report. I think what happened was that over the fullness of time – and I'm very conscious of not wanting to sound like I'm making excuses; I'm providing reasons, and at the end of the day I'm accountable for it. But I think that over the period of time, given what I would describe as a frenetic, very high workload period of time, we as a collective in the ministry slipped into an assumption that we had actually until the end of August, like we did with the annual report. We started batching up some of the deadlines.

For example, today is July 13. We have an exit meeting with the Auditor General on the GOA annual report. We made a call back in March – I think Dale used the word "nightmare"; that is how it felt in March – about the broader annual report because, just as one example, the Ministry of Health is basically half of the budget and we knew that they were going to have to redirect resources. We wanted to give them certainty about what the deadline was for the annual report, and we asked and our elected representatives agreed that they would seek out an extension.

At a certain point we just kind of fell into groupthink that it included the heritage fund, and that was our mistake. At the end of June, when we started to prepare for when you were first going to meet with this committee and we provided the draft report, it was as a consequence of that that we realized we did not have legislative authority for an extension, so we revised our timelines. In fact, we worked right up, I think, until July 5 to finalize the report, so we did use all of the time, and we got it back to you as a completed document as soon as we could. I apologize again for the delay in that.

Ms Glasgo: No follow-up, Mr. Chair.

Thank you.

The Chair: Okay. Thank you.

On the list we'll go to Member Eggen.

Mr. Eggen: I think I'll defer.

The Chair: Okay. Fine. If you want to pass, you're welcome to.

Ms Gray: Thank you very much. My next question is to Mr. Uebelein and to AIMCo. I've seen, through your reports and on your website, that the values that AIMCo espouses are excellence, transparency, humility, integrity, and collaboration, which I think are all very, very important. In your oral report you started off by referring to the VOLTS strategy and described it as being very well reported. In your remarks one might get the impression that AIMCo proactively disclosed, but what seems to have happened for the Alberta public was that we learned about the VOLTS strategy and the losses through leaks to the news media. AIMCo then responded afterwards. Through the VOLTS report it's clear that the board was advised of the losses on March 14. My question to you, Mr. Uebelein, is: given the value of transparency, why did the Alberta public and the owners of the heritage savings trust fund find out about the losses in the news?

Mr. Uebelein: Our commitment to transparency is unwavering, and we interpret that transparency by the way we deal with our clients and our key stakeholders. When we've in the past offered to look through our clients and talk, for instance, to the pensioners themselves, frankly we've been told that that's the business of our clients, the pension funds, so we've doubled our efforts to be transparent with our clients directly. When the newspaper broke this story, this was not in any way, shape, or form because they were journalists digging up the tough story. We were in contact with our clients, including the heritage fund, the same week that the volatility was happening and pinching our returns.

10:00

Ms Gray: Okay. I understand by that that Treasury Board and Finance knew, but Albertans didn't know until the news media released it. So that might be a question I can ask the minister, who is ultimately responsible.

As a follow-up, along the same theme of transparency you mentioned – and I will try and use your own words – that a detailed report to clients has been shared with your clients, is publicly available on the website around that VOLTS strategy. But what you describe as a detailed report is seven pages of a brief, unsigned summary of the look into AIMCo and this investigation. In the same line of transparency, can we get a commitment from you to table the full report with this committee? The work that KPMG did, that Barbara Zvan came in: that likely should be made public in keeping with the values of transparency. I know that I've spoken to a number of investment professionals who've been surprised that the full report has been withheld and only a summary presented. I was wondering if you could speak to that decision.

Mr. Uebelein: Sure. I'd be happy to. First, I don't know which experts you've spoken to, but this is the board's report. It's not a summary of the board's report. It is the board's entire report, and this is what the board had promised to all the stakeholders, including the clients. When the board was preparing for that report, of course it drew upon expertise from across a number of different areas, but none of those experts were asked to write a full report. They were each asked for input in their specific area of expertise, whether that's Barbara Zvan, who, frankly, is a rock star in the area of investment risk, KPMG, the auditors, or interviews that were conducted by the board and by myself. That's a work product that a well-governed board can always commission, and it is absolutely not typical for that kind of governance work product to be divulged to the public at large. In fact, that would be a very exceptional situation. Now, I can tell you that it's the intent of the board to share that work product, as is appropriate, directly with the clients, and I think the board has made that clear.

Ms Gray: Thank you.

The Chair: Where are we at here? Member Singh.

Mr. Singh: Thank you, Mr. Chair. Good morning, everyone. First of all, I would like to say thank you to all representatives of the Ministry of Treasury Board and Finance and AIMCo for coming here today. I have questions, if I have your permission to go back and forth with you. Thank you.

With the losses we see in the annual report, what amount of that is realized loss, and how much of it is unrealized? For the unrealized losses, what are the chances of seeing a recovery? What are the markets telling us today?

Mr. MacMaster: Sure. I'll answer that question. Other than the VOLTS loss, which was a realized loss of $400 million, the balance of the losses or the performance numbers that are reflected on page 11 of the annual report are mark-to-market losses for the most part. Those in the illiquid asset classes represent valuation adjustments, not writeoffs. I'd just like to clarify that. They're, you know, valuation adjustments that we felt were appropriate for our real estate holdings, for our private equity holdings, for our infrastructure holdings that, for the most part, we hope to see come back in the future. The only realized losses, other than VOLTS, would be trades that we would have in equities or fixed income that might have crystalized a loss that are represented here.

Mr. Singh: Thank you for answering.

The Chair: Can I just interrupt one second, Member Singh, just to clarify? Our procedure is that you get one question and one supplemental, and then we'll go to the other side, back and forth, just to keep balance. If you have additional questions, then you can go back on the list as many times as you want.

Thank you.

Mr. Singh: Yeah. I think it's a supplemental question. Could AIMCo provide the committee with a brief history of the volatility, VOLTS, strategy? What year did the strategy come into place? Were there any moments since its adoption that showed any signs of just how volatile this strategy could be? What caused the loss under this strategy, and what is the current state of that strategy?

Mr. MacMaster: The strategy was in place for approximately seven years. We took the opportunity through April, May, and June to unwind the strategy, so it's closed. All losses have been realized, the $389 million for the heritage fund, actually, and $2.1 billion in total. The strategy was extensively back-tested, primarily using the global financial crisis as a model. As I highlighted in my comments earlier, the level of volatility we experienced in March was completely unprecedented, so it was not reflected in the back-testing that was done and highlights, I think, a lesson for all investors, which is that the worst thing that's ever happened to you in the past is not necessarily the worst thing that can happen to you as an investor. A tough lesson to learn.

Mr. Singh: Thank you for answering.

The Chair: Thank you.
I believe we're back to Member Gray.

Ms Gray: Thank you very much. Along the same lines regarding the VOLTS strategy and the strategy review work that happened, my straightforward question is: who set the scope of the review and just the general guidelines that were used in reviewing the VOLTS strategy?

Mr. Uebelein: The AIMCo Board of Directors.

Ms Gray: Okay. Fantastic.
I'm concerned a little bit because the review has been conducted, and the results have been returned, and looking across this report and talking to stakeholders, again calling back the values of AIMCo of transparency and collaboration, it's my understanding that major clients who lost a billion dollars or other amounts were not consulted as part of this strategy review or by the board as part of this review, and I'm concerned about that given the values of collaboration and working with stakeholders. Can you speak to the role that clients had in understanding the VOLTS strategy, how it impacted them, the risk tolerances, and that collaboration going forward as AIMCo serves to meet the needs of clients?

Mr. Uebelein: Yes. I can give it a good try. My understanding is that the board's review is a procedural and technical review of what happened within AIMCo with the VOLTS strategy, so I think all of the focus of that review was internal within AIMCo. I don't think that there was any input that clients could give on what happened within AIMCo. Certainly, it's the intent, then, that the results of that review would be shared, including in detail, with our clients.
Meanwhile management has been, in my opinion, hypertransparent with our clients. As I said earlier, we began sharing with them what we were experiencing in real time the same week. Before the volatility was even over, we were holding and conducting telephone calls to share with them our experience. In fact, it was because of our hypertransparency that the press began covering this even before we were able to close out our positions, which was, just between you and me, a very unhelpful situation.

Ms Gray: I appreciate that and will only suggest that, understanding that this was a procedural review within AIMCo, the clients and the impact to them, I think, are a very important part of this story and analysis, especially given the clients setting the risk tolerance and how that then becomes understood by AIMCo. I think that seems like a piece of the whole puzzle that needs to be considered, and it wasn't considered in this report. How will AIMCo address those concerns with clients going forward?

Mr. Uebelein: Thank you.

Mr. Prefontaine: If I may, I'll jump in because this has been part of the ongoing dialogue that we've been having with clients. Not only were we out in front, talking with clients, as Kevin talked about, the week that this really began to take hold, but there's been ongoing dialogue. Part of that has been around how clients express their risk tolerances and how AIMCo internalizes those expressions of risk tolerance. With the board's report now out and for all of the recommendations and instructions to management to clearly be seen, the next phase of this is for management to act upon those and then collaborate with clients and communicate with clients exactly what we're doing, how we're doing, and what kind of impact that will have with them.

Ms Gray: Thank you.

Mr. Getson: Thanks again, folks, for coming down and doing this. Yeah, difficult times, to be sure. I mean, when you're couching at that, you hit bear market territory and a 20 per cent loss in the overall market within 16 days. You know, I guess there is some solace in looking at what took place here, that it was only a 5 per cent bath that we took. But make no mistake, folks. Like, these are taxpayers' dollars, so we're not going to make it an easy ride on you today for questions.

10:10

You kind of mentioned the reasons for the elimination of the Alberta growth mandate on page 16 of the annual report. I wonder if you can go into that a bit more and the fact that you state that the program was eliminated and deemed no longer necessary due to all investments under the mandate exceeding AIMCo's risk return target, and to do so would have removed whether the mandate was in place or not. Does this imply that the investments before 2019-20 would not have been made if the mandate was not in place?

Mr. MacMaster: No. Those investments would have been made. All the investments made in the Alberta growth mandate were made strictly on the basis of economic return and investment decisions. Those investments were shared amongst all of our clients. We simply earmarked the Alberta growth for the heritage fund as falling into that bucket.

Mr. Getson: Okay. To follow up on that, if I may, did the investment direction from the government have any real effect on this, or was there any direction from the government? I believe it's arm's length, but it's kind of the mandate that we give you.

Mr. Prefontaine: Yeah. The only direction, if you will, would be the criteria that were set out as part of the Alberta growth mandate, and it was clearly visible on both the website of Treasury Board and Finance as well as AIMCo. As Dale talked about, the first decision that was made was: is that investment worth while from a risk-return objective standpoint? Only once the decision was made to make that investment did we then look at the criteria for the Alberta growth mandate to see if it fit within that bucket.

Mr. Getson: Okay. Thank you.

The Chair: Yeah. Okay.

Ms Gray: Yes.

The Chair: Member Gray, please.

Ms Gray: Thank you very much, Mr. Chair, and thank you to, again, everyone for presenting information to the committee. On this subject from page 12 of our report, just referring to the VOLTS investment strategy, we've talked a little bit about my concerns around transparency and Albertans finding out via the media. You've echoed that it was unfortunate in how it impacted even just helping people to understand what was happening.

I was hoping that someone could explain kind of step-by-step who knew what, when, what was done about it. I know that in the report, in January 2020 the real risk associated with the VOLTS strategy became known to the risk managers at AIMCo, so perhaps if we could start with kind of January 2020, and how did this all unwind with the public finding out through media and the steps prior to that?

Mr. Uebelein: I'd like to just clarify one thing . . .

Ms Gray: Please.

Mr. Uebelein: . . . that I just glanced upon in my last comment. When we began communicating with our primary stakeholders, our clients in government, and our board as this was unwinding, it was, frankly, important that we keep this information transparent with our key stakeholders and clients because the public at large and our counterparts in the marketplace transparently understanding our strategy, too, will and does have an adverse impact on our ability to mitigate that strategy. What I was referencing is the fact that, frankly, the leak to the media had an adverse impact on our ability to mitigate this strategy during this period of unprecedented volatility. I can't put a dollar damage amount on that leak, but it was real, and it was very disappointing to us. When we act and think deeply about our commitment to transparency, we have to measure that with being stewards of Alberta's money.

Now, to your more recent question, I think what you're referring to is the fact that we've had this VOLTS strategy since 2013. We've, as management and certainly the portfolio managers, understood or at least believed that they understood the shape of risk for this strategy over all types of scenarios, including those first, second standard deviation scenarios, the long-risk scenarios. It was earlier in this year that our risk teams began really honing in and focusing in on: how well do we know how that will behave in truly, truly unusual and radical scenarios? So we began looking at that. It's heartbreaking that that analysis did not come to bear in time for the mother of all volatility events, which happened in that week of March 9 through 13, and it's something that, frankly, I know that I and Dale and others regret. That's what I think you're referring to.

Ms Gray: Yes. Absolutely. The idea that it was identified in January yet still in place several months later, when things went topsy-turvy, and that understanding that once in a lifetime or career, as you flagged it, but also, as noted in the report, in something that happened in I think it was 1987 with the Black Monday event: having seen those things happen in the past, it's unfortunate that even though it was identified that the kind of ramped-up version of the VOLTS investment strategy was flagged in January, it was still in place and experienced such strong losses and, to use the language that Mr. MacMaster was using, unrealized losses that we can't recover from, if I'm correct.

Mr. Uebelein: It's actually realized losses.

Ms Gray: Oh. Realized. Thank you.

Mr. Uebelein: But you're correct. It is unfortunate. I think it's important just to point out that there was no one specific "it" that was realized in January. I think it's a continued, deeper appreciation of the complexities of how this product and this strategy would behave in very specific long-tail scenarios that were beginning to be discussed and realized. But there wasn't a single aha moment. I, frankly, wish that there had been, and as you said, MLA Gray, it is very unfortunate.

Ms Gray: Thank you.

The Chair: Member Glasgo.

Ms Glasgo: Thank you, Mr. Chair. I'm going to change gears, and we're going to talk about governance within AIMCo itself. These questions will be primarily directed at AIMCo executives. Thank you, Treasury Board and Finance, but this will be directed at AIMCo executives.

I understand that AIMCo has recently announced that the chair of the board, Dr. Richard Bird, will no longer be at AIMCo and that Mr. Mark Wiseman will be his replacement. If I'm correct, I believe that Mr. Wiseman has come to this committee before, so I think we're all familiar with him. Can somebody from AIMCo please explain how the board will ensure that its seats are occupied by the most qualified financial experts for the job? We know that AIMCo's performance has been largely due in part to the quality of the people that you at AIMCo have employed and used for your strategies. I'm just curious if you could opine on what that change was and how you will ensure that these are competency-based appointments and that the people hired will consistently be the best people for those jobs.

Mr. Uebelein: I'd be happy to address that. Actually, thank you. This gives me the opportunity to have written into *Hansard* the great debt of gratitude that we have for our outgoing chair, Richard Bird. He just completed a second three-year term on the board of directors of AIMCo, the last three years being the chairman of the board, and I personally can't thank him enough. I'm grateful to be able to put these words into posterity in the *Hansard* record.

Having said that, we are very excited to have someone of the calibre of Mark Wiseman join the board, and not just join the board but join as our chairman. He's someone who, if you know his biography and his background, has certainly walked in our shoes and walked in larger shoes than ours as a senior executive at Ontario Teachers' and then rising to be CEO eventually of CPPIB.

With regard to the professionalism of the AIMCo board, you're absolutely right. In my opinion, it's one of the most qualified boards that I've ever had the privilege of working for. The process of board appointments is not an executive role; it's one that is done in concert between the board's Governance Committee itself and, of course, the government, which, in essence, owns AIMCo. I can say that that process over the 11 years that AIMCo has been in existence continues to replenish itself with a focus on only the most qualified board members and, if you will, a matrix of important variables that need to be accounted for across a range of different factors. I think they've done an outstanding job.

10:20

Ms Glasgo: Thank you very much for that clarification. I'll just use my supplemental to ask: what changes have you done either on a board level or on a governance level, what will you plan to do going forward in light of the losses from the volatility strategy, and how will you prevent a situation like this from happening in the future under new direction?

Mr. Uebelein: With regard to governance, we will be increasing and expanding the way in which we as management report risk metrics to the board on a regular basis, and the board's direct oversight of certain strategies that share certain characteristics with VOLTS will be meaningfully changed.

Apart from those specifically governance-related changes, there is a series of operational changes within AIMCo that we're making, and they fall into a couple of categories. I think we've spoken quite a bit already, thanks to questions from you and MLA Gray, about the fact that the rigour and breadth of scenario testing and stress testing for all strategies but particularly strategies that have what we would call a skewed risk at extreme tails will be improved and need to be improved.

Just to get a little nerdy on you, if we completely re-create what happened in the global financial crisis or even the Black Monday of 1987, re-create it on a day-by-day basis against that strategy, the losses would not have been nearly as big as what we experienced. In fact, in the global financial crisis re-creation model there weren't losses at all. That's because it's not just how big the volatility is; it's the suddenness of the volatility. In other words, how quickly does it come onboard? A lot of process changes in terms of, as I said, the way in which scenario and stress testing is done.

We will also be making and have made procedural changes in how strategies can be changed through their life. As you can well imagine, as the markets change, then our strategies need to modulate with them. We want to make sure that any change, even changes that actually do reduce risk against the return, are ones that are looked at through every single appropriate prism, including that backward-looking stress testing, to make sure that we're not modulating into something that might be riskier, including in those extreme tail events.

Thirdly, the report speaks to – I feel very passionately about the fact that no matter how many procedural changes you make at the governance level or the operational level, we need to make sure that we have the right risk culture across the entire AIMCo organization. I mention this with a little bit of caution because AIMCo does have a strong risk culture, but clearly we did not have a strong enough risk culture. What do I mean by that? I mean that having the appropriate, right risk culture is not one of these things that you can have across 90 or 95 or 97 per cent of your employees. It has to be endemic across every single employee.

When I think about what is the right risk culture, it really includes three factors. The first is that every single employee has to take risk management as their personal responsibility. They can't be thinking that it's the full-time risk employees' or the risk professionals' job to be thinking about risk. Each one of us has to be thinking about risk and be risk mindful.

The second is that with regard to our relationship with our risk management teams, those full-time risk professionals, those relationships have to be looked at as collaborative. In other words, we are working together. We are not working, like, against each other or view the risk teams as the risk police.

Thirdly, which is another factor that's raised in the report, we have to have very clear guidance and even the expectation that any of our employees, if necessary, know when and how to escalate a risk issue if they think it's not being handled appropriately within the organization.

Ms Glasgo: Thank you very much for your clarification.

I just wanted to end my comments this round – I have many more questions for you; I'm sorry – by saying that you never have to apologize for being nerdy because I think we all got here by being a little bit nerdy, so thank you for that.

Mr. Uebelein: Thank you, and of course you don't have to apologize for being hard on us. I mean, honestly, this was a quarter from hell, and we deserve to be whacked around.

The Chair: Member Gray, I believe, again.

Ms Gray: Thank you. With respect, I would like to try and whack again. Mr. Uebelein, from the VOLTS strategy you were just speaking with my colleague about, the strong risk culture at AIMCo, I would just like to quote from the review that has been publicly posted. The second main conclusion from the board's review was that "the root cause of this was that the breadth and depth of risk governance controls, collaboration and risk culture, while evolving and improving over the past 2-3 years, are still unsatisfactory." It really leaves one with that impression that although there have been improvements over two to three years, you are now at the unsatisfactory mark, which seems to indicate to me that there's a lot more work to be done.

My specific question to you would be – keeping in mind that there's a bit of a demarcation now. There's what was happening before, and now, going forward, AIMCo is changing and improving your performance and procedures. I'd like to better understand how AIMCo was able to implement the strategy in the first place in 2013 and then accelerate it and make it more aggressive in 2018. Within the context of VOLTS and what was happening, who was responsible for assessing risk and providing that proper risk oversight? Would that have been the risk committee of management or of the board? Where were those decisions happening, or was it at a lower level than that?

Mr. Uebelein: First, let me unpack your comments and questions. I think the board's assessment stands on its own. It's quite clear. Our risk culture is not satisfactory right now. That's one of the very important lessons that I personally have learned from this, that measuring things like our integration of our product risk teams with our investment teams or measuring our risk culture cannot be done on a moving average basis. If we look at those things and say, "Year over year for the last three years it has been improving; it is stronger than the year before," one might say that it's moved into a better grade mark. That's not satisfactory because with things like that integration between risk and the investment teams or risk and risk culture, we need to look at not just the moving average, which was a positive slope, but the dispersion, and we have to ask ourselves: is there anything at the lower level of that dispersion that's still not acceptable? That's something very closely akin to sort of a zero tolerance. Zero tolerance efforts on things that are so important are very different than sort of an average grade. I'd say that our grade has been climbing, but until we can look everyone in the eye and say that there's zero tolerance for that kind of cultural breakdown, then it's not acceptable.

As to the other, please remind me. I apologize. If you could remind me of the other part of your comments.

Ms Gray: Of course. Thank you very much because I'm finding you are giving very fulsome answers.

I was specifically trying to understand: in 2013 and 2018, when the strategy was accelerated and made more aggressive and the downside protection was removed in 2018, where were those decisions being made, and was it the risk committee of management, the risk committee of the board? Was it the investment managers themselves? Can you please speak to the risk management as it was when this strategy was . . .

Mr. Uebelein: With regard to the first formation of volatility strategies, in 2013, this is from book learning. I joined AIMCo in

2015. But I've certainly reviewed all of that and all the documentation. When a new strategy like that is introduced and then approved by the management Investment Committee, there is a substantial book of testing, back testing, stress testing. In that case, it included, as Dale has already mentioned, a re-creation of the global financial crisis as a means of stress testing as well as multiyear back testing. That was placed on the equities platform in 2013.

As I made reference to some of the operational changes that need to be made at AIMCo, over the course of its existence there were changes made to that strategy, changes that at the time the portfolio manager and other managers in that line of oversight felt were improvements to the strategy and indeed were changes that reduced the risk over a broad swath of the outcomes. So this is one of the really hard learnings, that decisions like that, very small, incremental changes that included putting caps as opposed to uncapped derivatives in place, need to make sure that they go through the sort of thorough review, including with risk management, that new strategies have. In other words, any meaningful change to a strategy should be treated almost as if it's a whole new strategy. Those decisions were made at various levels of management committees. They certainly were not made at the board level or at the executive level.

10:30

Ms Gray: Thank you.

The Chair: Thank you.
Member Williams.

Mr. Williams: Thank you, Chair, and thank you to all of our witnesses and experts for coming in today. These questions will be directed towards AIMCo: Mr. Prefontaine, Mr. MacMaster, Mr. Uebelein. In Mr. Uebelein's opening comments he talked about how this was without precedent as a recession, largely, that we haven't seen something like this before. He used the words that there's "nowhere to hide" in the midst of it in terms of where to go with investing, that it hit everyone no matter what you did or where you came from, that the worst thing that's happened to investing up to now isn't necessarily the worst thing that can happen, a difficult lesson to learn but one we all did, myself included with my own investments.

I'm wondering: in that moment, in March, as this hit, what steps did AIMCo take at an operational investment level to try and mitigate that? The rest of us often didn't have the kind of expertise you guys had. I kind of hoped to ride it out and see what happened. What did you guys do in that moment during the pandemic?

Mr. MacMaster: Is this a VOLTS-specific or a more broad question?

Mr. Williams: No. In general, in terms of mitigating that.

Mr. MacMaster: Well, I would have to say that, like many, we had a triaging of events, shall we say. The most important thing was the safety of our workforce. That was paramount. The second-most important thing, I believe, was the management of our liquidity and being able to accommodate our legal requirements in terms of investments that we make and satisfying collateral arrangements we have for our derivatives and triaging our assets. Every executive in charge of an asset class was going through each and every asset to manage. You can imagine the real estate executive being in touch with his tenants and his property managers to, again, mitigate losses and essentially prioritize what needs to be done. That was going on in the illiquid asset classes, private equity, infrastructure – are there any liquidity issues there? – safety of staff in those investments.

On the listed side, in fixed income, I would say that we were very well positioned for this crisis in that we had lightened up on our credit exposures for the last couple of years. The focus there was on providing liquidity for the organization and for our clients, and I think that went quite well despite the numerous challenges. It didn't go well for others, but that's their issue; we had enough of our own. Then equities: I would say that the focus was primarily on the VOLTS situation, where we were active, many of us, obviously, 24/7.

Mr. Uebelein: One of the other things that we did as we saw VOLTS really bite hard was that we looked at every other strategy we had against a few of the variables that were present that we knew were causing this exacerbated behaviour in VOLTS and asked ourselves: is there anything else on the platform at all that might have behaviour like this? That announcement was done, as you can imagine, immediately. We received back a message: no; there's nothing else on the platform.

Mr. Williams: One follow-up if I can. I appreciate that fulsome answer. In looking forward, Mr. MacMaster said in his comments that some of the best gains that you can find are coming out of the ashes of a recession like this. We saw that 2019, because of the nature of not being a calendar year but a fiscal year, is going to bear the brunt of those losses; 2020 will hopefully bear those gains. What are we doing to protect ourselves, to make sure we do see those in this fiscal year, in 2020, looking at potentially a second wave? Mr. MacMaster mentioned in his comments that the investment community seems to be hedging a lot on the possibility of a vaccine coming sooner than later. I was just wondering: what are we doing to make sure Albertans do see those gains?

Mr. MacMaster: Well, we are taking a number of steps in each of the asset classes. I think that in general we're being quite cautious. If you look at the equity markets, or what we call risk assets or credit and equities, they remain quite extended because of the liquidity that's been put into the market and this belief that, you know, a vaccine will come. I think it is surprising to many to view what is happening in the equity markets and reconcile that with the economy. Even in areas where the economic recovery has been quite pronounced – let's say in China – back to 75 or 80 per cent, I think what we're finding is that that last 20 or 25 is very, very difficult and may not come back. You think of retail, travel, hospitality, restaurant businesses. Those will likely be very, very slow.

So we're being quite cautious on this valuation/economic reality differential and trying to reconcile that. For instance, in credit, while we're looking for opportunities and we're positioned for that in the coming year or two, in listed credit we were being, you know, cautious. In equities we're remaining true to our DNA, which is that we're value oriented, and value has suffered the last few years, but we're staying true to that. So we're sticking to our knitting.

In terms of tax positioning, we have been slightly long in equities and have benefited from the equity market rally, but we are tempering that back at every opportunity because we think that the equity rally is vulnerable.

On the illiquid asset classes, in each one of those we continue to triage those assets. We continue to work with management. As you can imagine, in private equity the business has slowed down. Sellers are waiting; buyers are waiting. You know, capital is a little bit constrained, so the need for debt, for instance, needs to be managed. I would say that business has slowed down somewhat, but the valuation should be more compelling going forward.

I would say that in each asset class we're truly aware or attuned to taking advantage of opportunities, but if you recall, in March we saw quite a sharp V-shaped recovery. In fact, investors that are well known, like Warren Buffett, didn't get the opportunity to buy anything because the recovery was so quick as a result of central banks coming in. I think we were in that position, too, ready, pivoting from managing our issues to, you know, taking advantage, but that quickly dissipated as valuations went up.

But we are ready. We're being cautious, and we're well positioned. Our capital stands by. Our clients are with us. There are no calls on our capital. Our liquidity has come back quite nicely, and we feel well positioned.

Mr. Prefontaine: If I may, I'll supplement Mr. MacMaster's response.

Mr. Williams: Please do.

Mr. Prefontaine: I think Dale did a really good job of describing what was happening internally and externally with our investment partners and assets. Equally part of the triage process was the frequency of contact we established with our clients. We are in touch with them, for the most part, on a daily basis, have really increased the level of our reporting and the frequency of our reporting. Just as we were managing the liquidity within AIMCo for the benefit of our clients, we were reporting to our clients exactly what was happening in that space and, as much as we could, updating them as to what was happening with, you know, our significant assets that we hold on their behalf. That was an important part of the process.

Mr. Williams: Thank you.

The Chair: Very good. Thank you.

Now we'll move to Skype, and I believe Member Phillips has a comment or question. Please proceed.

Ms Phillips: Thank you, Chair. I have a couple of questions for Mr. Uebelein if I might. Mr. Uebelein, you are probably the highest paid public official in this province, with a pay package, with bonuses, of about $3 million, and a lot of that pay package comes from generating returns and short-term and long-term investment performance. My question is from Albertans who are wondering: how is that pay package for you and other named executive officers affected by these losses, and will there be accountability at the level of named executive officers?

10:40

Mr. Uebelein: Yeah. Thank you for that question. The single most important and most heavily weighted variable to our compensation is investment performance. As investment performance goes, so goes long-term compensation other than base compensation, so there will be a significant impact. Unless a value-add performance over the coming four years is significant, then there will be a four-year period – we measure ourselves over a four-year performance – where our compensation will be severely impacted. It's impossible to calculate that on each individual because the formula differs by individual, but as I said, it is that ability to provide value over the weighted-average benchmark which is the single largest component.

Ms Phillips: I do have a follow-up on risk management. You have talked a little bit about some of the preliminary actions that the organization has taken around risk management, and I'm wondering if you can sort of touch on two aspects that I had questions about. One, have you received any direction from government around better risk management strategies? It does seem like that was where we got into a lot of the problems with respect to volatility trading. It was happening at a lower level, unbeknownst to the board. I'm wondering: what kinds of changes have been taken, either at the board level or at the level of named executive officers, around that, and has there been any direction from government on that?

Two, I'm wondering if you can explain to the public what some of those next steps look like in terms of a new risk management framework. You touched on some of it, but I'm wondering if you can go into a little bit more detail around that because it really does appear that that's where things fell down. Certainly, the board was unaware, many of the executive officers were unaware of the level of risk that was being tolerated through volatility trading. You know, the public, who is watching this, wants to know: how is it that the government has compelled better risk management – this is our money in the heritage fund and in these pension funds – and two, we want to know that it's not going to happen again and that there are real consequences.

Mr. Uebelein: Thank you for that question. I think all the stakeholders around the table, myself included, are absolutely adamant to learn from this experience and not let something like this ever happen again, and the government, whether in their role as shareholder or in their role as client for the heritage fund, has been eager to hear the board's report and my own assessment of things that have been going on. I would say that, you know, their desire to see the right kind of lessons and the right kind of changes made is no different or no less than for our other clients.

I have to say that I'm glad to hear you put the question the way you did, because one of the things that we can't do as a result of this is just decide to stop taking investment risk or to no longer take investment risk. As I said in my opening remarks, this is the only way that professional investment organizations are able to perform for their clients. It is by understanding and knowing the risks and taking it and then reaping those long-term rewards, which is what AIMCo has done successfully over the long term.

I can reiterate the operational changes, hopefully in some greater level of detail, but once again they fall into the following categories. One is the implementation of a product risk team, which is already in place. We will need to make the necessary changes to ensure – this is something that I'm now starting to say – that the access that they've already had across all elements of the investment platform goes beyond access and includes inclusion. What do I mean by that? I mean that we need to make sure that those investment product risk professionals are included in all forms of conversation, all forms of evaluation, and in any modulation in products. We will institutionalize that so that any modulations in any strategies are covered as if they were new strategies. Those are operational changes. We will deepen and broaden the risk metrics, particularly for strategies that have skewed results at either end of the tail, with regard to stress testing and scenario testing.

The Chair: Thank you.

Member Armstrong-Homeniuk.

Ms Armstrong-Homeniuk: Thank you, Chair. To you, members of AIMCo, I understand that you are one of Canada's largest investment managers. Can you explain to us how AIMCo benefits from just being such a large-scale investor?

Mr. Uebelein: There are a number of ways in which scale greatly benefits our industry. Most industries in the modern world benefit from real scale advantages. In the asset management world it includes the fact that many of our investment platforms – our public fixed income platform, our public equities platform – are very scalable. By that I mean that the teams that might manage $10 billion or $20 billion or $30 billion of assets in one of those asset classes could, frankly, manage a portfolio of double or triple that size with only small, incremental increases in staff or head count. This is a huge efficiency advantage.

Just as a quick aside, when we talk about efficiency, that sometimes means cutting costs, but it really means making sure that every dollar spent has a targeted long-term return, because we understand that every dollar spent is a dollar that has to be remade with investment income.

Another element of very essential investment costs that is very much scalable is data costs. Data costs has been the single component of our costs that has been rising the fastest over the last five years. Those purveyors of data have realized that very professional asset managers really need that data. That's the lifeblood of the investment decisions they're making, so they've been raising prices. You can use the same data set for a portfolio of $120 billion as you may need for a portfolio or an asset management business of $10 billion or $20 billion. You can do the sums. That's a huge efficiency advantage.

There are very specific asset classes which unless you have sufficient scale, you are really unable to invest, certainly unable to invest directly. Therefore, if you're not able to invest directly, you have to invest through a third party, and those third parties typically will be charging you very high fees and in most cases what's called a carried interest. The fee plus carried interest for those asset classes will sometimes amount to a 22 to 25 per cent draining of the gross returns. Those are asset classes like infrastructure, in which AIMCo has a tremendous track record, private equity, real estate, some technical traded strategies as well.

That's just a few. I won't wax lyrical on more of the advantages, but this is why, for instance, this is a trend across our industry, not just in Canada, where we see consolidations taking place, but across the industry globally.

Ms Armstrong-Homeniuk: I have a supplemental question. With the performance of the product up to this point improving, are you doing any tweaks or any changes to any of the investments that you have to go with the market, or do you just keep it on the same point?

Mr. Uebelein: I may defer to Dale for any specifics, but one thing about, you know, our industry and many other industries is that if you're standing still, if you're not evolving, if you're not changing, then you're falling behind. We're mindful of that, and we're constantly thinking about what needs to be done better, what needs to be done differently, occasionally what needs to stop being done, as is the case with VOLTS, and looking at the next opportunity. I think that at a previous one of these standing committees we spoke at some length about the work that we're doing in machine learning and artificial intelligence to, if you will, not create all new strategies but to improve the tool set that we're using for some of our existing strategies. Those are just some of the things that we're doing.

Mr. MacMaster: Yeah. Maybe I could elaborate a little bit more. I mean, our business is very dynamic. Our strategies and products and approach to investing are really driven by two main things: one is our clients and their needs, and the other is the market opportunity. If we look at our clients today, many of whom are approaching funded status, the mix of products and strategies that they like to see has changed, maybe more focus on absolute return, less equity market risk and more, you know, risks that are attuned to their liabilities, like infrastructure, more customization based on their needs. So there's that aspect that Mark and his team and the investors carefully work on.

10:50

The other one is the market opportunity, and that is the one that's driven by changes in the marketplace. As you're all aware, we're in this recession, pandemic. You know, valuations in many areas of the market are attractive or will become attractive, we think, so we're taking steps to position ourselves for that. One of them is in the loans business, in the unrated credit, for instance. We think there'll be a wave of defaults in the next year, year and a half, and we want to be positioned to take advantage of that as good-quality credits come under pressure.

So you see that it's a dynamic of two, client-driven and market-driven. But it's always dynamic. We're always testing. We're always checking. We're always advancing.

Ms Armstrong-Homeniuk: Okay. Thank you.

The Chair: Thank you.

I'd just like to give a quick heads-up for everybody. We do have a couple of other agenda items that we do have to get to before the end of the meeting today at noon, so I'm sort of anticipating that we'll take about another 25 minutes on the annual report, and then at that point in time we'll take a five-minute break so that our invited guests can leave, and the committee will focus on some of the other pieces that we have to get done. If that's okay with everybody, that's where we'll proceed.

I believe Member Gray would like to take the next question.

Ms Gray: Oh, Mr. Chair, can we have more than 25 minutes? I'm really enjoying the questions.

The Chair: Well, that would be a little bit up to you. But we do have to cover some other items as well.

Ms Gray: Okay. Okay.

Mr. Uebelein, thank you. My colleague opened up the discussion a little bit around compensation. I note that in the VOLTS review under Changes Adopted, number 9, it reads:

> The Board's Human Resources and Compensation Committee will continue its compensation framework redesign initiative working closely with management and the independent advisors and including features to reinforce risk and investment management integration and a consistent organization-wide balanced risk culture.

From this report it seems that looking at the compensation structure at AIMCo is something that's already under way. I've spoken to a few experts who up to this point believed that the compensation structure at AIMCo wasn't well aligned with the incentives you would want, particularly for your pension clients.

I've been working a lot around pensions. I had private member's Bill 203 relating to pensions, giving me an opportunity to learn a lot, specifically that in the pension world the term "liabilities" becomes incredibly important and protecting those liabilities.

So far in our conversation you've talked about investment performance being the biggest part. So my initial question to you would be: when you have different types of clients, some of those being pensions, who have very different outcomes and goals in some respects because of the need to protect liabilities, how does that get integrated into your compensation framework, and will clients who are not named in the VOLTS report have any input into the compensation structure? And I'm speaking particularly about those pension clients.

Mr. Uebelein: Yes. Well, you're absolutely right. We're not a single homogenous asset owner organization like, for instance, Ontario teachers or CPP might be. Well, I believe we have an absolute fiduciarylike interest in and alignment with our clients. We're technically not the asset owner, and, therefore, the clients are handing us their views on risk appetite, risk tolerance as translated through their asset allocation decisions. Then with those asset allocation decisions and the guidance that they have on the risk tolerance and risk appetite that they have, we set a set of objectives – these are shared openly – and then meeting or exceeding those objectives drives in large part the compensation potential for all the employees across AIMCo.

At present the way in which any of our clients, whether they're our pension clients or the heritage fund or Workers' Compensation Board, which is a current client, have that influence over our objectives is through their input as evidenced through their asset allocation and their risk appetite and tolerance statements.

I think that's good. But we know that our clients are looking for not just us beating the benchmark, but they're interested in other variables like their funded level if they're a pension fund, their contributions at risk. These are all things that we can potentially help influence, but because we are not the actual asset owners, we have to share that input with the asset owners themselves, so the pension clients. These are exactly the sorts of variables that our board is eager to look at in terms of potentially making design changes to our compensation.

Ms Gray: Okay. Mr. Prefontaine, you look like you have something to add.

Mr. Prefontaine: Yeah. I'll jump in.

Mr. Uebelein: I don't know how you could improve on perfection, but give it a chance.

Mr. Prefontaine: I mean, I have nothing to add. No. I will say this, that alignment with our clients is very important to AIMCo. As mentioned previously, currently the vast majority of our clients express their expectations of AIMCo by their value-add expectation. It's one of the reasons that's a critical component to the AIMCo compensation structure. That said, there are a number of inputs to that, including the fact that we have a number of asset classes that have absolute return benchmarks, so they're less about relative performance and more about just getting over a particular hurdle. So when our clients talk about, you know, getting even further alignment, it's often this difference between an absolute return expectation and a relative return expectation.

These are the kinds of conversations that have led us to really wanting to engage with all of our clients in being shoulder to shoulder with them and collaborating on determining things like risk tolerance and asset allocation. It is part of the drive that AIMCo has to better understand our clients, particularly pension fund clients that have, you know, a lot of diversity but a lot of similarity in terms of liability-driven funding needs.

Ms Gray: Okay. Thank you. To supplement that, choosing risk tolerance and then the percentages of various asset classes: I'm just wanting to test if that's truly sufficient means for clients to communicate their risk appetite, particularly because I've heard, through my conversations in review of pensions, concerns about a bit of a lack of transparency on the details within asset classes. They can set the larger percentages but won't necessarily always know the exact items. I know, in speaking to ATRF, they talked about how their investments in real estate are very specifically made, not just general real estate, but they don't invest in retail. They're looking for more of those longer term, so they get very detailed. But now as a client of AIMCo, they'll be able to set asset class percentages and not necessarily see the details of exactly . . .

Ms Glasgo: Point of order, Mr. Chair.

The Chair: Please state it.

Ms Glasgo: Under 23(b), relevance, I believe that the point of this committee is to look at the annual report and the Q3 report. I'm just curious as to how this is relevant. I think it's important that as a committee we stay on task. The representatives from AIMCo are here today to speak about the specifics of the annual report and the Q3 report.

The Chair: Your reply?

Ms Gray: I feel there's no point of order here, Mr. Chair, as I am talking about client perspectives, and the heritage savings trust fund is a client. So do we have enough insight into the asset classes and the risks, the compensation framework? This is all related to this year's annual report and Albertans as clients feeling they have adequate visibility into investment decisions being made with their money.

Mr. Uebelein: I can try to address these questions.

The Chair: I should probably rule on it before you do.

Mr. Uebelein: Sorry.

The Chair: I think I'm required to.

Yeah. I don't think it's actually a full point of order. I would just caution the member. We are to focus on these reports, and I get that the subject has gone fairly broad and points of order quite often do allow for a fairly broad discussion, but let's try to keep it focused on AIMCo. I don't really see a point of order here.

Mr. Uebelein, if you are prepared to answer the question, please proceed.

Mr. Uebelein: Yes. Well, I think that we need to always be doing everything we can to ensure that our clients feel like they have enough transparency. When I hear that they don't feel like there's been enough, then I need to take that seriously.

What I will share is that, as is the case with the quarterly reports that you have in front of you – I have physical versions of them here – for each of those quarters there's something called the AIMCo pool report. It's 71 pages in length. It goes into detail on every single one of the strategies and substrategies that the heritage fund has. The same sort of detail is afforded to our clients not just on a quarterly basis; they can look at it online any time they want. Most of our clients also have outside experts, pension advisers, if you will, who meet with us at least once a year. This is usually a multiday process where they can ask any and all questions and ask for additional detail.

11:00

Again, we want to redouble our efforts. We are committed to that level of transparency, but we're hardly hiding this under a bushel. With regard to compensation, our compensation discussion, our CD and A, if you will, and our annual report – our annual report just came out last week. We think it's one of the most fulsome and detailed CD and A discussions in our entire industry, not just in our peer group. That's a great starting point for making sure that everybody knows the philosophy, the theory, the mechanism, and then finally what numbers come out the other end. It's hardly just showing the numbers; it's showing how we got to those numbers and what the theory is behind the compensation.

The Chair: Done?

Mr. Uebelein: Yes. Thank you.

The Chair: Thank you.
I've forgotten. Are we at a supplemental? That was a supplemental. Okay. Thank you.
Next on the list is Member Singh.

Mr. Singh: Thank you, Mr. Chair. This question is for AIMCo. On page 13 of the annual report it reads that the fund has seen an increase in private mortgage investments of $31 million from the previous year. Can AIMCo describe the decision to increase funding in private mortgages and how the portfolio has performed? Do you expect the pandemic to affect this portfolio?

Mr. MacMaster: There was an increase. Decisions on investments are made case by case. In mortgages very often where we have a relationship with a borrower and there's a renewal that comes up, we'll do an in-depth analysis and very often roll that mortgage at, you know, the current rate and terms.
To answer your question about how the pandemic has impacted mortgages, the mortgage portfolio is a very, very high-quality, high-grade portfolio based primarily in Canada with top tenants, top properties, and top locations. To my knowledge it has never experienced a default in the 22 years I've been involved with the product. In this pandemic there have been one or two cases of allowed deferrals in the mortgage portfolio, but other than that it's one of the areas of the portfolio that I think is holding up quite well.

Mr. Singh: Thank you for your answer.

The Chair: A follow-up?
Any more questions?

Ms Gray: Actually, I think Shannon Phillips would like to be on the list if she can be.

The Chair: Okay. I was not aware of that.
Member Phillips, are you there? Would you like to ask a question?

Ms Phillips: Yes. Thank you. I'm wondering if AIMCO can tell me a little bit about their expectations for losses, the statement of policy that comes from the Ministry of Finance, whether that policy was followed or was broken with respect to their review of what happened with volatility trading?

Mr. Epp: I will tell you that AIMCo's compliance officer signs a compliance certificate at the end of every quarter and provides that to us. The last one we received was, of course, on March 31 with respect to that quarter. We have not yet received the package for the quarter ended June 30. There were no issues identified in the most recent compliance report.

Ms Phillips: All right. Just quickly, then, moving on to another piece, I'm wondering if AIMCo executives can confirm for the committee when their annual report was delivered to the Ministry of Finance, what date it was delivered to them.

Mr. Uebelein: I don't believe we delivered it in advance of delivering it to the public at large and to our other clients.

Mr. Epp: That's correct.

Mr. Prefontaine: Our annual report . . .

Ms Phillips: Is there a date?

Mr. Uebelein: It would be Thursday at 4 o'clock or 5 o'clock.

Mr. Prefontaine: July 9, the same day that it was made public.

Mr. Uebelein: Typically we do not share our annual report with any of our stakeholders in advance of its general release, and that was the case this year.

The Chair: Okay. Thank you.
Member Getson, please.

Mr. Getson: Perfect. Thank you.
Firstly, thank you very much again, guys. A lot of this speaks to culture for me. There was that book – I don't know if you gentlemen have read it. I did. It was kind of recommended to me at one time when I was a gating and risk manager at one company I worked for as a consultant. It was *Who Moved My Cheese?* It was all about adapting to change. What I was going to be concerned about was the culture of change that I might have heard coming into this meeting, that AIMCo was very fixated on their strategies, not looking towards revising the model, not tweaking it. That would have been a different conversation, I think, that many of us members would have had around the table.
I am encouraged by that, again, the risk models, getting back to that culture of identifying risk: it's not just the risk-takers that are in that room, that naval gazing. What we found in the major capital projects when I was involved in that – I mean, these were projects that were half to three-quarters of the size of this actual fund. What we found was that when you got down to the water cooler conversations, the folks that weren't necessarily directly dealing with the items, the levels of risk tolerance were lower because it was something foreign to them. The ones that did those activities, who were involved in that every day: it was the normal course of business. When you look at some organizations that have fallen hard on that, it's when they become entrenched, so I'm very encouraged to hear what you guys are doing here, talking about the risk.
Now, given that you've taken a few of the items off the table, such as the mandate that we're supposed to have, the growth item on here, the VOLTS strategies, you're employing some other ones, I'm understanding. How are we going to make up the short-term losses that we have? What are some of these other tools, I guess, or different financial investment vehicles that are going to make up the short-term losses, and what is the level of tolerance of risk on those? Are they similar to what the VOLTS strategy was? I'm hoping that's not the answer and that we have something else.

Mr. MacMaster: Yeah. Maybe I'll address that. It's interesting that we have both the third-quarter and fourth-quarter reports in front of the committee. If you look at the third-quarter report, at AIMCo's performance both in terms of total return and relative return, excess over the absolute return target for Finance's set five and 10 years: great results. I think it speaks to our performance. We're not changing the DNA in terms of our approach to managing the assets. What we're continuing to change at all times, as I alluded to earlier, are the client needs for new products and strategies, the market opportunity.

The second part I want to emphasize is that despite experiencing these awful losses in the fourth quarter, it's very important for us to not go out and say, "Well, we've got to earn this back. Let's go take more risk." No. We're going to very carefully evaluate the opportunities as they come, and we will continue to take the approaches we used in the prior 10 years, prior to this quarter. Again, we've improved risk processes, government's oversight, reporting, including our board, and changes to how we manage some of these strategies like VOLTS, so there will be improvements. But, again, we're not going to go out and look to recoup these losses. That would be a big mistake. Over time we're confident that this is not representative of AIMCo. It's a misstep. We'll learn from it. We'll move on, and we look forward to the days when we're adding value as we did in the last 10 years.

Mr. Getson: With that, again, you have a broader portfolio. You also have the foreign offices out there. Again, in a project type of thing this is almost a project-overwhelming risk, what you guys just went through, what we all went through. Thank goodness it didn't swamp the damn boat, you know. Let's put it in context. That was good, attesting to your methodologies and the practices you had. If I were to put it in a project risk, you know, you've got a meteor that comes out of left field that completely wipes everything out. You never would have been able to identify it. Then you have items like one-in-100-years storm events or something like that, so you can put a value to it and do that.

11:10

With having your foreign offices and, again, with the strategy going forward, what are the foreign markets looking at here? Again, I'm trying to fixate back on this window. If you have a model that's given over a certain period – everything is kind of copacetic for a number of years, then you have these major disruptors, if you're looking at them, between the global crisis that took place before, and now you've got the pandemic, and you had, you know, Black Friday back in '87. Are these events getting more unpredictable? Is the frequency coming out there, and is it isolated to potentially a region? What are you guys seeing in the crystal ball, so to speak, in that regard?

Mr. MacMaster: Sure. Well, we have a couple of data points. Global financial crisis, pandemic: I don't know if it's fair to say that these are becoming more frequent or not, but in terms of the opportunity I think each asset class is looking at what could develop as a good opportunity. As I touched on earlier, one of the first that we see and probably most obvious is the opportunity in credit markets. The loans market, the unrated credit market, has expanded tremendously in the last few years. Banks have largely exited that business, which has helped them weather this storm, but there is a supply and demand imbalance, we think, that'll play over the next couple of years. The last few years, because of low rates and monetary stimulus, there are probably a number of companies out there who received loans that probably shouldn't have and won't survive this recession. That will have carry-on impacts to high-quality credit in terms of their pricing, and that's the area we want to take advantage of. We're very well set up to play that theme out in the next year or two. So that's one.

We also have seen opportunities when these events happen where our unlisted assets, infrastructure and real estate, can take advantage of pandemonium in the listed market. In other words, real estate can go in and buy listed real estate rates when they look at the valuation between private and public. Sometimes there's a huge disconnect when we have panic in markets. We've done that before. We plan to do that again. The response in March to the monetary stimulus was such that it was quite a V-shaped recovery, but this isn't over yet, and we're ready for that.

The same thing in infrastructure. A few years ago we saw a setback in the markets and we took advantage to take a position in TransAlta Renewables, a well-known, listed infrastructure company. Again, in that asset class we could take advantage of that.

There are plenty of other opportunities for these asset classes as well in midstream assets, which are coming under increased pressure. Certain investors aren't participating. We've taken part in Northern Courier, Coastal GasLink, and there will likely be other opportunities in Canada, the U.S., and abroad. There are plenty of opportunities. We'll be careful to deploy those funds, but stay tuned.

Mr. Getson: Thank you.

The Chair: Thank you. We're getting close to a quarter after. Member Gray started the questioning, so I'll end on this side, which is to say that I'll give each of you one more question, and then I think we'll have to move on to the agenda, okay?

I believe Member Gray would like to take that question. There you go.

Ms Gray: Thank you very much, Mr. Chair. That seems very reasonable and fair.

First, just as a follow-up from my colleague's question, can you provide the date that the heritage savings trust fund annual report, not the AIMCo annual report, would have been provided to TBF? Similarly or in that same line, without getting into the weeds, I note that the active management return for the five-year average and 10-year average changed and was downgraded between the draft report that was originally submitted and then the final report that's before us today. If you wouldn't mind just speaking to that because I was surprised when comparing the draft and final reports.

Mr. Prefontaine: I know that Dale's done some analysis of that difference, but just speaking to the process of the production of the annual report for the heritage savings trust fund, AIMCo doesn't produce the report. We provide, obviously, a material amount of data for that report, but we don't actually produce the final report.

Ms Mentzelopoulos: That's produced by TBF.

Ms Gray: Perfect. Thank you. That helps with the understanding.

As my final question, just going back to the VOLTS strategy, I wanted to understand if there was a stress test done prior to the implementation, if a stress test was done after the strategy was revised to become riskier, or if a stress test was done after January when it was identified that there were some major risks there. If you could just speak to that process because I've heard the term "stress test" used now on a go-forward basis.

Mr. Uebelein: Yes. You know, we use these terms. They're slightly different, but they're close to being synonymous. Back testing is when you take a strategy and you say: what if this had been, going back in history, and you use the actual trading days and sort of try to replicate how it may have performed in an actual back-tested market environment.

Stress testing and scenario testing are the other two terms that we've used, and I apologize because they are slightly different. Stress testing is sort of exactly what it sounds like. You dream up stress situations and ask yourself: how will this strategy, like extreme tail events, behave? Scenario testing is frequently stress tests, but they are specific scenarios, so it might be exactly like the

Black Monday event of 1987 or exactly like, you know, fill in the blank.

I can tell you that this product went through all three of those before it was put on the platform in 2013. The sufficiency of those, I think, we've already talked about. The fact that we need to make sure that we are extremely thorough in the range of scenario, back, and stress testing that is done and the degree of stress testing as this product changed in the intervening years between 2013 and 2020: again, there was some done but not enough. I'll just say that flat out. Then in January our product risk teams were starting to perform more of those scenario tests. I think that's your question.

Ms Gray: Thank you very much for all the responses.

Just in regard to the first question I asked, if you are able to share with the committee the date that you provided the data for the heritage savings trust fund report – that was just the question Shannon had asked and I tried to follow up on. If you can follow up with the committee, that would be wonderful.

Again, thank you.

Mr. Uebelein: Sure.

Mr. Epp: Excuse me. I can respond to that. It's an interactive process between the accounting staff that works in the department and AIMCo's accounting staff and, quite frankly, the Auditor General as well. There isn't a date that they provide information per se. There are many dates that information is provided.

The Chair: Thank you.

Last question goes to Member Glasgo.

Ms Glasgo: Thank you, Mr. Chair. This is my last chance to geek out, so I'm just going to ask you a couple more questions about the volatility strategy. We've heard a lot about the volatility strategy today, and I think you just confirmed – I think it was Mr. Uebelein – that this was employed in 2013, so this was prior to the election of the United Conservative government, correct?

Mr. Uebelein: Correct.

Ms Glasgo: Thank you very much.

I'm just wondering if you could elaborate on AIMCo's role as an investor. I can't remember exactly who it was – I believe it was yourself – who alluded to the role of an investment manager versus a bank and, further, how the scale of losses is what's important here. If you could just clarify for Albertans the role of AIMCo as an investment manager as it relates to the VOLT strategy and the timeliness of that strategy being employed and I guess just these extreme tail events, how they relate to your VOLT strategy overall.

Mr. Uebelein: Yes. What I'd made reference to in my opening comments is the fact that investors innately need to take market risk and, if they're active investors, other forms of active risk in order to make investment returns. At the risk of probably maddening career bankers, the bankers' role is much more to protect deposits but to do that while earning a sufficient return on those deposits by making very prudent loans. But their focus very much is on risk minimization as opposed to the dynamic of understanding risks, understanding risk appetites and tolerances, and then taking those investment risks in order to reap long-term, net-of-expenses investment returns for the clients.

11:20

Certainly, we believed that VOLTS was one valid component in a diversified portfolio of different strategies and asset classes, and for the first seven years it had a profitability and a behaviour that supported that. What we had wrong was that in extreme tail scenarios three-sigma or – I'm matching you geek for geek – three standard deviation events the swoop effect of those losses were not captured accurately or appropriately. As I said, we've made changes to make sure that never happens again. It impacts the quantum of the losses, not the fact that losses would have happened, and that's something that I think is important to bear in mind.

In a market like we had in March, it's hard to find an active investment strategy that didn't take a beating. We will see many of those recover. VOLTS will not be one of them, and for that I'm very regretful, and I take full accountability.

Ms Glasgo: I appreciate the transparency and the aptness to explain this to Albertans, so thank you very much for being here today.

Mr. Uebelein: Thank you.

The Chair: Thank you all. Thanks to members for a very fulsome examination of the annual report. Good questions. Well done. Thanks to all the members who have attended. It's very helpful in helping everybody understand the whole procedure.

We need now to approve a motion to approve the annual report. We have a draft motion. Moved that

> the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2019-20 annual report on the Alberta heritage savings trust fund.

Is there anyone who would like to move that motion? Okay. Mr. Getson.

Any comment, debate on the motion? Mr. Nielsen.

Mr. Nielsen: Thanks, Mr. Chair. Once this, of course, gets presented to the Assembly, if for some reason a minority report were to be added to it, what would be the date?

Mr. Kulicki: I'd just respond to this, Mr. Nielsen. A minority report wouldn't be added to this annual report because this is the report of the Treasury Board and Finance, but if you were interested in putting forward a minority report to the committee's report . . .

The Chair: Which we will come to in a minute.

Mr. Kulicki: You can do that. Yeah.

Mr. Nielsen: I kind of felt I was ahead of the game.

The Chair: Okay.

Any further questions or debate on the motion?

Seeing none, all those in favour of the motion as it's presented, please signify so. Any opposed? Seeing none,

> that motion is carried.

We will take a five-minute recess now, and we're going to keep it tight to that because, folks, we are only going to have 30 minutes to deal with two major additional agenda items that might take some discussion, so please be back here in exactly five minutes.

I will thank the presenters for their presentations, and, yes, you can all go. Thank you for being here, and have a good day.

The committee reconvenes in exactly five minutes. Thank you.

[The committee adjourned from 11:23 a.m. to 11:28 a.m.]

The Chair: Okay, I think we have everyone here, so if I could call us back to order, I would like to do that.

The first item that we have to address is the requirement that the committee provide an annual report to the Legislature – just a reminder to members that that's under section 6(4)(c) if you want to look it up – and we do that on an annual basis. The draft of this report was posted to the committee's internal website for members to view. I trust that you've taken a careful look at it. The report covers all of the activities of the year, the members. It's a full, detailed report of the committee's activities for the past year.

At this point in time I'd like to open it up. If members have any questions or comments regarding the draft report as it's presented, we can entertain those, and then after that I'll entertain a motion to approve the report. So comments or questions, please.

Mr. Getson: I'm wondering if this is where MLA Nielsen brings up his supplemental to it?

Mr. Nielsen: I didn't want to jump in.

Yeah. Just asking that if there is a desire for us to put in a minority report, what date would that be due, please?

The Chair: Well, it's certainly within your rights to do that.

Mr. Nielsen: Yeah.

The Chair: Go ahead.

Mr. Kulicki: Sure. To Member Nielsen: how about by noon Monday next week, and then the chair would table the report Monday next week.

Mr. Nielsen: Thank you kindly.

The Chair: Any further comments or questions on the annual report as presented?

Mr. Getson: Well, actually, yes, Mr. Chair.

The Chair: Okay.

Mr. Getson: With the supplemental report that comes in – what do you call it again? It's not the minority report. What's it called?

The Chair: Minority report.

Mr. Getson: Minority report.

The Chair: Yeah.

Mr. Getson: How do the mechanics of that work? Does it come back to the rest of the board to review, or does it get appended to the report?

The Chair: No. It gets added to the report to the Legislature.

Further comments, questions?

If none, there is a draft motion on the board there for you. Moved that

> the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft annual report of its activities during 2019.

There's the motion. Would anyone like to make it?

Mr. Nielsen: So moved.

The Chair: Thank you, Mr. Nielsen.

Comments, questions, debate on the motion?

Seeing none, I'll call the question. All those in favour, please signify. Any opposed? None.

> That motion is carried.

Thank you.

Now, this one might take a little bit more time. The next piece is that we need to do some planning and preparation for the upcoming annual public meeting that we're required to hold for Alberta stakeholders. That's our next issue. There are some concerns for us this year with how we manage some of the potential issues of COVID and physical distancing and that kind of thing, so we may want to defer a decision on the exact date till a later meeting. We will have one more meeting, I believe, in September prior to the public meeting.

We can leave the date go, but before the committee makes a decision on this, I also first want to note, with respect to the format, that I believe it will be preferable if we could have members of the public attend in person, as we've had in years past. However, with the COVID challenge, LAO staff have advised that in the event that this would be inadvisable due to COVID-19, the committee may wish to consider using a moderated teleconference for public participation along with accepting questions from the public through e-mail and the Assembly's social media channels, as we've done in the past. If the committee would like to defer making a decision on the format, two main options that we could consider at our next meeting would be whether to have members of the public attend in person or whether to use a moderated teleconference. Regardless of which of these options the committee chooses, members of the public would still be able to submit questions through e-mail and social media.

That's some of the discussion that we have to address here. Do you have any questions or comments about how we might proceed with that before we look at a draft motion? Member Gray, I think you flagged me first.

Ms Gray: Thank you. Just to note that I know members of the public are now able to come to committee meetings if they preregister. The LAO has set up that system.

The Chair: That's correct.

Ms Gray: But I understand your comments that we are always alive to changes to the directions of the chief medical officer of health . . .

The Chair: Exactly the point.

Ms Gray: . . . if something changes. I would simply say that if we can allow even limited in-person, I think Albertans appreciate that opportunity to be here while following the orders of the chief medical officer of health. That would just be my opinion.

The Chair: Okay. I would agree completely.

Any others? Getson.

Mr. Getson: Yeah. I would agree with Member Gray. I think that with the numbers that we had last year and the format, it seemed to work out pretty decently. So if we had to manage, you know, a little bit of the people in the chairs and maybe have the waiting room outside, I think we could definitely make it work.

Mr. Eggen: Yeah. I think you're right. I mean, we could always rotate people out, right? But if we stick to the same plan for the other committees and so forth and then kind of allow, you know, the right decision to happen closer to the meeting time – I did want to ask: is there any legislated time that we're meant to have the meeting by, by any chance?

The Chair: Good point.

Mr. Eggen: Just so we don't do that again.

Mr. Kulicki: Through you, Mr. Chair, to Mr. Eggen: no, there is no legislated deadline.

Mr. Eggen: Okay. Great.

Mr. Kulicki: It's been as late as late November, early December in years past.

Mr. Eggen: Okay.

Mr. Kulicki: Certainly, I think the question that the committee would address at its next meeting would be scheduling the date.

Mr. Eggen: Okay. Sounds great.

11:35

The Chair: Okay. Let's put a draft motion up there. Moved that

> the Standing Committee on the Alberta Heritage Savings Trust Fund hold the 2020 public meeting at the Edmonton Federal Building and decide on the date and format at the committee's next meeting.

Is there anyone willing to make that motion? Mr. Singh. Any comment or question, debate on the motion as presented? None?

Seeing none, I'll ask the question. All those in favour, please signify. Any opposed? None.

> That motion is carried.

Thank you.

Now a little more discussion on the next piece, the communications plan. Members will recall that last year the committee directed LAO communications services to provide a communications plan in support of the public meeting and authorized the chair to approve the plan after it had been made available to members to review. If members would like to take a similar approach this year, the committee could direct LAO communications services to put together a draft communications plan, including cost information about a potential moderated teleconference option, so that will be unique to this year.

Once the plan is approved, this would permit communications services to lay the groundwork for some of the elements of the plan over the summer. Then after the committee has decided on the date and format of the meeting, communications would be able to finalize the messaging that would go out to promote the public meeting. I would just note that we have Ms Janet Laurie from LAO communications at the back there, who is available to respond to any questions or comments that you would like to make.

With regard to moving forward in a communications plan, what's your wish? Mr. Nielsen.

Mr. Nielsen: Yeah. I think we might as well give LAO staff as much time as we can to explore all the different options and shouldn't hold them up on that.

The Chair: Okay. Anyone else to comment?

Mr. Getson: Yeah. Mr. Chair, I think last year it worked pretty well. It stayed within those parameters. Myself, I was pretty comfortable with that. I think they did a great job of the research, bringing it to the new committee that we had here. It seemed to work pretty good. If there were any lessons learned, I'd be interested in hearing about them. If we have to tweak it a little bit, that would be the next iteration.

The Chair: Any other comments, questions? Anyone? Boy, this is going surprisingly quickly. I thought it might take a little more debate considering the COVID complications. All right. We'll put a draft motion on the screen for you, then. Moved that

> the Standing Committee on the Alberta Heritage Savings Trust Fund direct LAO communications services to prepare a draft communications plan in support of the 2020 public meeting, including providing cost information for using a moderated teleconference, should that be necessary . . .

Oh, I shouldn't have said that, should I? Not on a motion. Delete that, please.

> . . . and that the chair be authorized to approve the communications plan after it has been made available to the committee to review.

That's the motion. Anyone willing to make that motion as it's written?

Mr. Getson: How does the amendment work on that if we want to amend it?

The Chair: If you want to amend it, there will be opportunity, but first we need to make the motion. Okay. Well, we can discuss it before. If you want to discuss amending it, what would you like to suggest?

Mr. Getson: Well, Mr. Chair, if I may, I think I'd like "if required" added in there because, again, if we give ourselves some latitude rather than committing to it . . .

The Chair: It's minor, but it's appropriate. I guess I could ask for consensus. Does anybody have any opposition to adding those two words "if required"?

Mr. Nielsen: Where would it go, Chair?

The Chair: Right after the word "teleconference". He just put it in there for you. Any opposition to that change? We don't have to do that as a formal motion? We can change it now? Okay. It hasn't been moved yet. All right. No concerns with that. All right. Now you have the motion as written on the screen.

Mr. Getson: I would move it.

The Chair: Mr. Getson is prepared to move the motion. Any debate? I'll read it into the record as is. Okay. Moved that

> the Standing Committee on the Alberta Heritage Savings Trust Fund direct LAO communications services to prepare a draft communications plan in support of the 2020 public meeting, including providing cost information for using a moderated teleconference if required and that the chair be authorized to approve the communications plan after it has been made available for the committee to review.

That's the motion that's been made. Any debate or discussion on the motion as it stands?

Seeing none. I'll call the question. All those in favour, please respond. Any opposed? Hearing none,

> that motion is carried.

On to item 9. Any other business that anyone would like to bring forward?

Seeing none, I'll move to item 10. The date of the next meeting will likely be in September at the call of the chair. After the 2021 first-quarter report of the heritage fund has been made available to us, members will be polled at a later date on some possible times. If that's okay with everyone, we'll proceed that way.

If there's nothing else for the committee to consider, I'll call for a motion to adjourn.

Mr. Nielsen: So moved.

The Chair: So moved. Mr. Nielsen, thank you.

Oh, I'm always of the thought that you don't need to vote on a motion to adjourn, but not in committees. Okay. The motion was made to adjourn. All those in favour, please signify. Any opposed? This meeting is officially adjourned.

Thank you, all, for your good service.

[The committee adjourned at 11:41 a.m.]

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